

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

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 Symbols	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

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 (or for such shorter period that the registrant was required to submit such files). 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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock was 35,590,250 as of May 2, 2022.

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
	2022	2021
<i>(In millions, except per share data)</i>		
Revenues		
Premiums	\$ 1,263.8	\$ 1,161.8
Net investment income	76.9	76.8
Net realized and unrealized investment gains (losses):		
Net realized gains (losses) from sales and other	3.0	(1.6)
Net change in fair value of equity securities	(18.0)	39.1
Impairment losses on investments	(0.9)	—
Total net realized and unrealized investment gains (losses)	(15.9)	37.5
Fees and other income	5.9	6.0
Total revenues	1,330.7	1,282.1
Losses and expenses		
Losses and loss adjustment expenses	787.5	781.3
Amortization of deferred acquisition costs	262.9	240.3
Interest expense	8.5	8.5
Other operating expenses	141.8	137.9
Total losses and expenses	1,200.7	1,168.0
Income from continuing operations before income taxes	130.0	114.1
Income tax expense (benefit):		
Current	30.2	8.9
Deferred	(5.5)	12.4
Total income tax expense	24.7	21.3
Income from continuing operations	105.3	92.8
Discontinued operations (net of taxes):		
Loss from discontinued life businesses	(0.5)	(0.1)
Net income	\$ 104.8	\$ 92.7
Earnings per common share:		
Basic:		
Income from continuing operations	\$ 2.96	\$ 2.55
Discontinued operations (net of taxes):		
Loss from discontinued life businesses	(0.01)	—
Net income per share	\$ 2.95	\$ 2.55
Weighted average shares outstanding	35.5	36.4
Diluted:		
Income from continuing operations	\$ 2.91	\$ 2.52
Discontinued operations (net of taxes):		
Loss from discontinued life businesses	(0.01)	(0.01)
Net income per share	\$ 2.90	\$ 2.51
Weighted average shares outstanding	36.1	36.9

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

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

<i>(In millions)</i>	Three Months Ended March 31,	
	2022	2021
Net income	\$ 104.8	\$ 92.7
Other comprehensive income (loss), net of tax:		
Available-for-sale securities:		
Changes in net unrealized losses on investment securities:		
Having no credit losses recognized in the Consolidated Statements of Income	(379.4)	(185.5)
Having credit losses recognized in the Consolidated Statements of Income	(0.5)	—
Total available-for-sale securities	(379.9)	(185.5)
Pension and postretirement benefits:		
Net change in net actuarial loss	1.1	0.7
Total other comprehensive loss, net of tax	(378.8)	(184.8)
Comprehensive loss	\$ (274.0)	\$ (92.1)

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

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(In millions, except share data)</i>	March 31, 2022	December 31, 2021
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$7,644.8 and \$7,514.8)	\$ 7,382.2	\$ 7,723.9
Equity securities, at fair value	607.0	661.3
Other investments	786.1	767.4
Total investments	8,775.3	9,152.6
Cash and cash equivalents	272.0	230.9
Accrued investment income	47.9	49.8
Premiums and accounts receivable, net	1,483.1	1,469.5
Reinsurance recoverable on paid and unpaid losses and unearned premiums	1,940.3	1,907.3
Deferred acquisition costs	552.8	552.0
Deferred income tax asset	43.4	—
Goodwill	178.8	178.8
Other assets	449.0	606.3
Assets of discontinued businesses	104.6	107.1
Total assets	\$ 13,847.2	\$ 14,254.3
Liabilities		
Loss and loss adjustment expense reserves	\$ 6,512.2	\$ 6,447.6
Unearned premiums	2,760.4	2,734.9
Expenses and taxes payable	769.7	907.7
Deferred income tax liability	—	60.8
Reinsurance premiums payable	70.1	55.1
Debt	781.8	781.6
Liabilities of discontinued businesses	120.2	121.7
Total liabilities	11,014.4	11,109.4
Commitments and contingencies		
Shareholders' Equity		
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	1,887.8	1,887.2
Accumulated other comprehensive income (loss)	(256.6)	122.2
Retained earnings	3,061.0	2,983.2
Treasury stock at cost (24.9 million and 25.0 million shares)	(1,860.0)	(1,848.3)
Total shareholders' equity	2,832.8	3,144.9
Total liabilities and shareholders' equity	\$ 13,847.2	\$ 14,254.3

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

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

<i>(In millions)</i>	Three Months Ended March 31,	
	2022	2021
Preferred Stock		
Balance at beginning and end of period	\$ —	\$ —
Common Stock		
Balance at beginning and end of period	0.6	0.6
Additional Paid-in Capital		
Balance at beginning of period	1,887.2	1,857.4
Settlement of accelerated share repurchases and other	0.6	6.6
Balance at end of period	1,887.8	1,864.0
Accumulated Other Comprehensive Income, net of tax		
Net Unrealized Appreciation (Depreciation) on Investments:		
Balance at beginning of period	184.9	428.1
Net depreciation on available-for-sale securities	(379.9)	(185.5)
Balance at end of period	(195.0)	242.6
Defined Benefit Pension and Postretirement Plans:		
Balance at beginning of period	(62.7)	(55.6)
Net amount recognized as net periodic benefit cost	1.1	0.7
Balance at end of period	(61.6)	(54.9)
Total accumulated other comprehensive income (loss)	(256.6)	187.7
Retained Earnings		
Balance at beginning of period	2,983.2	2,668.0
Net income	104.8	92.7
Dividends to shareholders	(27.0)	(25.8)
Balance at end of period	3,061.0	2,734.9
Treasury Stock		
Balance at beginning of period	(1,848.3)	(1,696.3)
Shares purchased at cost	(16.3)	(50.3)
Net shares reissued at cost under employee stock-based compensation plans	4.6	6.2
Balance at end of period	(1,860.0)	(1,740.4)
Total shareholders' equity	\$ 2,832.8	\$ 3,046.8

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

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(In millions)</i>	Three Months Ended March 31,	
	2022	2021
Cash Flows From Operating Activities		
Net income	\$ 104.8	\$ 92.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized investment (gains) losses	16.0	(38.3)
Net amortization and depreciation	3.3	3.8
Stock-based compensation expense	6.7	5.6
Amortization of defined benefit plan costs	1.4	0.8
Deferred income tax expense (benefit)	(5.5)	12.6
Change in deferred acquisition costs	(0.9)	(13.5)
Change in premiums receivable, net of reinsurance premiums payable	1.3	(21.3)
Change in loss, loss adjustment expense and unearned premium reserves	90.3	270.5
Change in reinsurance recoverable	(33.0)	(8.5)
Change in expenses and taxes payable	(103.4)	(143.6)
Cash received for MCCA refund, partially offset by payments made to policyholders	148.9	—
Other, net	(29.8)	(19.0)
Net cash provided by operating activities	200.1	141.8
Cash Flows From Investing Activities		
Proceeds from disposals and maturities of fixed maturities	228.9	528.0
Proceeds from disposals of equity securities and other investments	75.2	66.5
Purchase of fixed maturities	(372.8)	(617.2)
Purchase of equity securities and other investments	(38.6)	(53.6)
Capital expenditures	(4.9)	(2.3)
Net cash used in investing activities	(112.2)	(78.6)
Cash Flows From Financing Activities		
Proceeds from exercise of employee stock options	7.4	5.8
Dividends paid to shareholders	(26.7)	(25.5)
Repurchases of common stock	(16.3)	(45.3)
Other financing activities	(11.2)	(6.7)
Net cash used in financing activities	(46.8)	(71.7)
Net change in cash and cash equivalents	41.1	(8.5)
Cash and cash equivalents, beginning of period	230.9	120.6
Cash and cash equivalents, end of period	\$ 272.0	\$ 112.1

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

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements of The Hanover Insurance Group, Inc. and its subsidiaries (“THG” or the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and with the requirements of Form 10-Q. Certain financial information that is provided in annual financial statements, but is not required in interim reports, has been omitted.

The interim consolidated financial statements of THG include the accounts of The Hanover Insurance Company (“Hanover Insurance”) and Citizens Insurance Company of America, THG’s principal property and casualty insurance companies; and other insurance and non-insurance subsidiaries. These legal entities conduct their operations through several business segments discussed in Note 8 – “Segment Information.” The interim consolidated financial statements also include the Company’s discontinued operations, consisting primarily of the Company’s former accident and health and life insurance businesses. All intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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, the accompanying interim consolidated financial statements reflect all adjustments, consisting of normal recurring items, necessary for a fair presentation of the financial position and results of operations. The results of operations for the three months ended March 31, 2022, are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2022.

2. New Accounting Pronouncements

Recently Issued Standards

In March 2022, the Financial Accounting Standards Board issued Accounting Standards Codification (“ASC”) Update No. 2022-02, *Financial Instruments – Credit Losses (Topic 326)* (“ASC Update No. 2022-02”). This guidance amends ASC Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326); Measurement of Credit Losses on Financial Instruments*, (“ASC Update No. 2016-13”) which the Company implemented effective January 1, 2020. This ASC update eliminates the recognition and measurement guidance for Troubled Debt Restructurings (“TDRs”), while enhancing disclosure requirements for certain loan refinancing and restructurings. Additionally, this update requires that an entity disclose current-period write-offs by year of origination for financing receivables and net investments in leases. ASC Update No. 2022-02 should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, which has the option to be applied through a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. For entities that have adopted ASC Update No. 2016-13, this update is effective for fiscal years beginning after December 15, 2022, including interim periods. Early adoption is permitted for those entities that have adopted ASC Update No. 2016-13. The Company does not expect the implementation of this guidance to have a material impact on its financial position or results of operations.

3. Investments

A. Fixed maturities

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

March 31, 2022						
(in millions)	Amortized Cost	Allowance for Credit Losses	Amortized Cost, Net of Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 404.0	\$ —	\$ 404.0	\$ 2.1	\$ 24.4	\$ 381.7
Foreign government	2.2	—	2.2	0.1	—	2.3
Municipal	1,189.6	—	1,189.6	8.7	62.4	1,135.9
Corporate	4,000.3	(0.9)	3,999.4	35.2	123.1	3,911.5
Residential mortgage-backed	1,060.2	—	1,060.2	1.4	62.6	999.0
Commercial mortgage-backed	824.1	—	824.1	1.9	29.6	796.4
Asset-backed	165.3	—	165.3	0.2	10.1	155.4
Total fixed maturities	\$ 7,645.7	\$ (0.9)	\$ 7,644.8	\$ 49.6	\$ 312.2	\$ 7,382.2

December 31, 2021						
(in millions)	Amortized Cost	Allowance for Credit Losses	Amortized Cost, Net of Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	\$ 7,515.1	\$ (0.3)	\$ 7,514.8	\$ 257.1	\$ 48.0	\$ 7,723.9

The Company deposits funds with various state and governmental authorities. For a discussion of the Company's deposits with state and governmental authorities, see also Note 2 – "Investments" in the Notes to Consolidated Financial Statements in the Company's 2021 Annual Report on Form 10-K.

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.

March 31, 2022		
(in millions)	Amortized Cost, Net of Allowance for Credit Losses	Fair Value
Due in one year or less	\$ 271.9	\$ 273.9
Due after one year through five years	2,015.1	2,028.4
Due after five years through ten years	2,775.8	2,635.1
Due after ten years	532.4	494.0
	5,595.2	5,431.4
Mortgage-backed and asset-backed securities	2,049.6	1,950.8
Total fixed maturities	\$ 7,644.8	\$ 7,382.2

B. 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 March 31, 2022 and December 31, 2021, including the length of time the securities have been in an unrealized loss position:

(in millions)	March 31, 2022					
	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	\$ 7.5	\$ 132.1	\$ 16.9	\$ 124.6	\$ 24.4	\$ 256.7
Municipal	61.1	775.3	1.3	8.9	62.4	784.2
Corporate	91.4	1,706.1	17.0	115.5	108.4	1,821.6
Residential mortgage-backed	54.0	822.2	8.6	73.5	62.6	895.7
Commercial mortgage-backed	24.5	581.7	5.1	41.3	29.6	623.0
Asset-backed	10.1	122.6	—	—	10.1	122.6
Total investment grade	248.6	4,140.0	48.9	363.8	297.5	4,503.8
Below investment grade:						
Corporate	13.5	257.1	1.2	9.4	14.7	266.5
Total fixed maturities	\$ 262.1	\$ 4,397.1	\$ 50.1	\$ 373.2	\$ 312.2	\$ 4,770.3

(in millions)	December 31, 2021					
	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

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.

C. Proceeds from sales

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

(in millions)	Three Months Ended March 31,	
	2022	2021
Proceeds from sales	\$ 68.6	\$ 217.4
Gross gains	1.6	2.9
Gross losses	0.5	7.2

D. Impairments

For the three months ended March 31, 2022, the Company recognized impairments on fixed maturities of \$0.9 million. For the three months ended March 31, 2021, the Company did not recognize any impairments.

At March 31, 2022 and December 31, 2021, the allowance for credit losses on mortgage loans was \$7.1 million and the allowance for credit losses on available-for-sale debt securities was \$0.9 million and \$0.3 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.

E. Equity securities

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

(in millions)	Three Months Ended March 31,	
	2022	2021
Net gains (losses) recognized during the period	\$ (18.0)	\$ 39.1
Less: net gains recognized on equity securities sold during the period	0.5	0.6
Net unrealized gains (losses) recognized during the period on equity securities still held	\$ (18.5)	\$ 38.5

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 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 services, 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 services 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 net asset value ("NAV") provided by the general partner, adjusted for recent financial information, and are excluded from the fair value hierarchy.

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

(in millions)	March 31, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets carried at:				
<i>Fair Value through AOCI:</i>				
Fixed maturities	\$ 7,382.2	\$ 7,382.2	\$ 7,723.9	\$ 7,723.9
<i>Fair Value through Net Income:</i>				
Equity securities	607.0	607.0	661.3	661.3
Other investments	146.8	146.8	143.8	143.8
<i>Amortized Cost/Cost:</i>				
Other investments	455.0	466.8	450.8	472.9
Cash and cash equivalents	272.0	272.0	230.9	230.9
Total financial instruments	<u>\$ 8,863.0</u>	<u>\$ 8,874.8</u>	<u>\$ 9,210.7</u>	<u>\$ 9,232.8</u>
Financial Liabilities carried at:				
<i>Amortized Cost:</i>				
Debt	<u>\$ 781.8</u>	<u>\$ 789.5</u>	<u>\$ 781.6</u>	<u>\$ 845.5</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 applicable pricing service along with supporting documentation for its review. The Company does not adjust quotes or prices obtained from the pricing services unless the pricing service agrees with the Company's challenge. During the first three months of 2022 and 2021, 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.

(in millions)	March 31, 2022			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	\$ 381.7	\$ 218.8	\$ 162.9	\$ —
Foreign government	2.3	—	2.3	—
Municipal	1,135.9	—	1,123.6	12.3
Corporate	3,911.5	—	3,911.4	0.1
Residential mortgage-backed	999.0	—	999.0	—
Commercial mortgage-backed	796.4	—	785.8	10.6
Asset-backed	155.4	—	155.4	—
Total fixed maturities	<u>7,382.2</u>	<u>218.8</u>	<u>7,140.4</u>	<u>23.0</u>
Equity securities	607.0	602.2	—	4.8
Other investments	4.3	—	—	4.3
Total investment assets at fair value	<u>\$ 7,993.5</u>	<u>\$ 821.0</u>	<u>\$ 7,140.4</u>	<u>\$ 32.1</u>

<i>(in millions)</i>	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
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	7,723.9	221.5	7,477.0	25.4
Equity securities	661.3	651.2	—	10.1
Other investments	4.3	—	—	4.3
Total investment assets at fair value	\$ 8,389.5	\$ 872.7	\$ 7,477.0	\$ 39.8

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 March 31, 2022 and December 31, 2021, the fair values of these investments were \$142.5 million and \$139.5 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>	March 31, 2022			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 272.0	\$ 272.0	\$ —	\$ —
Other investments	466.8	—	2.8	464.0
Total financial instruments	\$ 738.8	\$ 272.0	\$ 2.8	\$ 464.0
Liabilities:				
Debt	\$ 789.5	\$ —	\$ 789.5	\$ —

<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	\$ —

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

	Fixed Maturities					
<i>(in millions)</i>	Municipal	Corporate	Commercial mortgage-backed	Total	Equity and Other	Total Assets
Three Months Ended March 31, 2022						
Balance January 1, 2022	\$ 14.0	\$ 0.1	\$ 11.3	\$ 25.4	\$ 14.4	\$ 39.8
Total losses:						
Included in total net realized and unrealized investment losses	—	—	—	—	(5.3)	(5.3)
Included in other comprehensive loss-net depreciation on available-for-sale securities	(0.6)	—	(0.5)	(1.1)	—	(1.1)
Sales	(1.1)	—	(0.2)	(1.3)	—	(1.3)
Balance March 31, 2022	<u>\$ 12.3</u>	<u>\$ 0.1</u>	<u>\$ 10.6</u>	<u>\$ 23.0</u>	<u>\$ 9.1</u>	<u>\$ 32.1</u>
Change in unrealized losses for the period included in other comprehensive loss for assets held at the end of the period	<u>\$ (0.6)</u>	<u>\$ —</u>	<u>\$ (0.5)</u>	<u>\$ (1.1)</u>	<u>\$ —</u>	<u>\$ (1.1)</u>
Three Months Ended March 31, 2021						
Balance January 1, 2021	\$ 7.0	\$ 0.5	\$ 12.4	\$ 19.9	\$ 9.5	\$ 29.4
Total gains (losses):						
Included in total net realized and unrealized investment gains	—	—	—	—	0.1	0.1
Included in other comprehensive loss-net depreciation on available-for-sale securities	—	—	(0.4)	(0.4)	—	(0.4)
Sales	(0.8)	(0.1)	(0.2)	(1.1)	—	(1.1)
Balance March 31, 2021	<u>\$ 6.2</u>	<u>\$ 0.4</u>	<u>\$ 11.8</u>	<u>\$ 18.4</u>	<u>\$ 9.6</u>	<u>\$ 28.0</u>
Change in unrealized losses for the period included in other comprehensive loss for assets held at the end of the period	\$ —	\$ —	\$ (0.4)	\$ (0.4)	\$ —	\$ (0.4)

There were no transfers between Level 2 and Level 3, and there were no Level 3 liabilities held by the Company for the three months ended March 31, 2022 and 2021.

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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)	Valuation Technique	Significant Unobservable Inputs	March 31, 2022		December 31, 2021	
			Fair Value	Range (Wtd Average)	Fair Value	Range (Wtd Average)
Fixed maturities:						
Municipal	Discounted cash flow	Discount for: Small issue size	\$ 12.3	4.5 - 6.8% (6.5%)	\$ 14.0	4.5 - 6.8% (6.5%)
Corporate	Discounted cash flow	Discount for: Small issue size	0.1	2.5% (2.5%)	0.1	2.5% (2.5%)
		Above-market coupon		0.3% (0.3%)		0.3% (0.3%)
Commercial mortgage-backed	Discounted cash flow	Discount for: Small issue size	10.6	1.9 - 3.1% (2.7%)	11.3	1.9 - 3.1% (2.7%)
		Above-market coupon		0.5% (0.5%)		0.5% (0.5%)
		Lease structure		0.3% (0.3%)		0.3% (0.3%)
Equity securities	Market comparables	Net tangible asset	1.2	N/A	1.3	N/A
	Market comparables	Revenue market multiples	3.6	2.5 - 8.3 (5.4)	—	—
	Internal price	Unadjusted price from financing round	—	—	8.8	11.18 (11.18)
Other	Discounted cash flow	Discount rate	4.3	16.1% (16.1%)	4.3	16.1% (16.1%)

The weighted average of the unobservable inputs was weighted by the relative fair value of the 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 changes in any of the above inputs in isolation would result in a significantly lower or 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. Income Taxes

Income tax expense for the three months ended March 31, 2022 and 2021 has been computed using estimated annual effective tax rates. These rates are revised, if necessary, at the end of each successive interim period to reflect current estimates of the annual effective tax rates.

The tax provision was comprised of a U.S. federal income tax expense of \$24.7 million and \$21.3 million for the three months ended March 31, 2022 and 2021, respectively.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions, and have previously filed in 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 years 2017 and 2018 commenced in June 2021.

6. Pension Plans

The components of net periodic pension cost (benefit) for the defined benefit pension plans included in the Company's results of operations are as follows:

(in millions)	Three Months Ended March 31,	
	2022	2021
	Pension Plans	
Interest cost	\$ 3.8	\$ 3.7
Expected return on plan assets	(4.3)	(4.6)
Recognized net actuarial loss	1.3	0.8
Net periodic pension cost (benefit)	\$ 0.8	\$ (0.1)

7. Other Comprehensive Income (Loss)

The following tables provide changes in other comprehensive income (loss).

(in millions)	Three Months Ended March 31,					
	2022			2021		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Changes in net unrealized gains (losses) on investment securities:						
Net unrealized losses arising during period for those having no credit losses in Consolidated Statement of Income	\$ (477.5)	\$ 100.3	\$ (377.2)	\$ (234.1)	\$ 49.2	\$ (184.9)
Net unrealized losses arising during period for those having credit losses in Consolidated Statement of Income	(1.2)	0.2	(1.0)	—	—	—
Amount of (gains) losses realized from sales and other recognized in Consolidated Statement of Income	(3.0)	0.6	(2.4)	1.6	(2.2)	(0.6)
Amount of credit recoveries recognized in the Consolidated Statement of Income	0.6	(0.1)	0.5	—	—	—
Amount of additional impairment losses recognized in the Consolidated Statement of Income	0.3	(0.1)	0.2	—	—	—
Net unrealized losses	(480.8)	100.9	(379.9)	(232.5)	47.0	(185.5)
Pension and postretirement benefits:						
Amortization of net actuarial losses recognized as net periodic benefit cost	1.4	(0.3)	1.1	0.8	(0.1)	0.7
Other comprehensive loss	\$ (479.4)	\$ 100.6	\$ (378.8)	\$ (231.7)	\$ 46.9	\$ (184.8)

Reclassifications out of accumulated other comprehensive income were as follows:

(in millions)	Three Months Ended March 31,		Affected Line Item in the Statement Where Net Income is Presented
	2022	2021	
	Amount Reclassified from Accumulated Other Comprehensive Income		
Details about Accumulated Other Comprehensive Income Components			
Net unrealized gains (losses) on investment securities	\$ 3.0	\$ (1.6)	Net realized gains (losses) from sales and other
	(0.9)	—	Impairment losses on investments
	2.1	(1.6)	Total before tax
	(0.4)	2.2	Tax benefit (expense)
	1.7	0.6	Continuing operations; net of tax
Amortization of defined benefit pension and postretirement actuarial losses	(1.4)	(0.8)	Loss adjustment expenses and other operating expenses (1)
	0.3	0.1	Tax benefit
	(1.1)	(0.7)	Continuing operations; net of tax
Total reclassifications for the period	\$ 0.6	\$ (0.1)	Benefit (expense) 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 the three months ended March 31, 2022 and 2021.

8. Segment Information

The Company's primary business operations include insurance products and services provided through four operating segments: Core Commercial, Specialty, Personal Lines and Other. Core Commercial includes commercial multiple peril, commercial automobile, workers' compensation, and other commercial lines coverages provided to small and mid-sized businesses. Specialty includes four divisions of business: Professional and Executive Lines, Specialty Property and Casualty ("Specialty P&C"), Marine, and Surety and Other. Specialty P&C includes coverages such as program business (provides commercial insurance to markets with specialized coverage or risk management needs related to groups of similar businesses), specialty industrial and commercial property, and excess and surplus lines. 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 run-off voluntary assumed property and casualty pools and run-off direct asbestos and environmental businesses. During the first quarter of 2022, the Company disaggregated its former Commercial Lines segment into the aforementioned Core Commercial and Specialty segments. Prior periods reflect this new presentation. This presentation is 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. This consists primarily 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.

<i>(in millions)</i>	Three Months Ended	
	March 31,	
	2022	2021
Operating revenues:		
Core Commercial	\$ 511.1	\$ 472.9
Specialty	301.3	274.2
Personal Lines	530.7	493.3
Other	3.5	4.2
Total	1,346.6	1,244.6
Net realized and unrealized investment gains (losses)	(15.9)	37.5
Total revenues	\$ 1,330.7	\$ 1,282.1
Operating income (loss) before interest expense and income taxes:		
Core Commercial:		
Underwriting income (loss)	\$ 32.2	\$ (51.3)
Net investment income	35.4	36.9
Other expense	(0.1)	(0.4)
Core Commercial operating income (loss)	67.5	(14.8)
Specialty:		
Underwriting income	33.9	2.0
Net investment income	16.2	14.9
Other income (expense)	(0.1)	0.1
Specialty operating income	50.0	17.0
Personal Lines:		
Underwriting income	12.3	58.9
Net investment income	22.6	22.1
Other income	1.4	0.8
Personal Lines operating income	36.3	81.8
Other:		
Underwriting loss	—	(0.3)
Net investment income	2.7	2.9
Other expense	(2.1)	(1.5)
Other operating income	0.6	1.1
Operating income before interest expense and income taxes	154.4	85.1
Interest on debt	(8.5)	(8.5)
Operating income before income taxes	145.9	76.6
Non-operating items:		
Net realized and unrealized investment gains (losses)	(15.9)	37.5
Income from continuing operations before income taxes	\$ 130.0	\$ 114.1

The following table provides identifiable assets for the Company's business segments and discontinued operations:

<i>(in millions)</i>	March 31, 2022	December 31, 2021
Property and Casualty	\$ 13,742.6	\$ 14,147.2
Assets of discontinued businesses	104.6	107.1
Total	\$ 13,847.2	\$ 14,254.3

The Company reviews the assets of its insurance companies collectively and does not allocate them between the Core Commercial, Specialty, Personal Lines and Other segments.

9. Stock-based Compensation

As of March 31, 2022, there were 1,384,101 shares and 2,311,068 shares available for grant under The Hanover Insurance Group 2014 Long-Term Incentive Plan and The Hanover Insurance Group 2014 Employee Stock Purchase Plan, respectively.

Compensation cost for the Company's stock-based awards and the related tax benefits were as follows:

<i>(in millions)</i>	Three Months Ended March 31,	
	2022	2021
Stock-based compensation expense	\$ 6.7	\$ 5.6
Tax benefit	(1.4)	(1.2)
Stock-based compensation expense, net of taxes	\$ 5.3	\$ 4.4

Stock Options

Information on the Company's stock option activity for the three months ended March 31, 2022 and 2021 is summarized below.

<i>(in whole shares and dollars)</i>	Three Months Ended March 31,			
	2022		2021	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,230,211	\$ 99.14	1,282,278	\$ 93.64
Granted	140,339	139.51	178,040	115.35
Exercised	(192,400)	81.48	(67,954)	80.96
Forfeited or cancelled	(2,939)	116.43	—	—
Outstanding, end of period	1,175,211	106.81	1,392,364	97.03

Restricted Stock Units

The Company currently issues time-based, market-based and performance-based restricted stock units to eligible employees, all of which generally vest after 3 years of continued employment.

The following tables summarize activity information about employee restricted stock units:

<i>(in whole shares and dollars)</i>	Three Months Ended March 31,			
	2022		2021	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Time-based restricted stock units:				
Outstanding, beginning of period	380,100	\$ 117.60	350,480	\$ 116.37
Granted	143,208	138.20	168,092	115.04
Vested	(114,978)	119.35	(109,667)	110.68
Forfeited	(5,609)	119.92	(7,388)	116.82
Outstanding, end of period	402,721	124.40	401,517	117.37
Performance-based and market-based restricted stock units:				
Outstanding, beginning of period	113,848	\$ 115.92	97,043	\$ 119.59
Granted	47,954	140.36	62,143	114.66
Vested	(39,338)	124.42	(43,506)	122.27
Forfeited	(2,936)	121.73	—	—
Outstanding, end of period	119,528	122.78	115,680	115.93

In the first three months of 2022 and 2021, the Company granted market-based awards totaling 19,057 and 37,348, 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 pre-selected group of property and casualty 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. Included in the amount forfeited above in 2022 are 1,282 shares related to market-based awards that achieved a payout below 100%. These awards were forfeited in the first quarter of 2022. Included in the amount granted above in 2021 are 14,501 shares related to market-based awards that achieved a payout in excess of 100%. These awards vested in the first quarter of 2021.

The Company also granted performance-based restricted stock units in 2022 and 2021, totaling 28,897 and 21,401, respectively, which are based upon the Company's achievement of return on equity objectives. These units have the potential to range from 0% to 150% of the shares disclosed. Increases above the 100% target level are reflected as granted in the period after which performance-based stock unit goals are achieved. Decreases below the 100% target level are reflected as forfeited. Included in the amount granted above in 2022 are 7,988 shares related to performance-based awards that achieved a payout in excess of 100%. These awards vested in the first quarter of 2022.

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:

<i>(in millions, except per share data)</i>	Three Months Ended March 31,	
	2022	2021
Basic shares used in the calculation of earnings per share	35.5	36.4
Dilutive effect of securities:		
Employee stock options	0.3	0.3
Non-vested stock grants	0.3	0.2
Diluted shares used in the calculation of earnings per share	36.1	36.9
Per share effect of dilutive securities on income from continuing operations	\$ (0.05)	\$ (0.03)
Per share effect of dilutive securities on net income	\$ (0.05)	\$ (0.04)

Diluted earnings per share for the three months ended March 31, 2022 and 2021 excludes 0.1 million and 0.2 million shares, respectively, issuable under the Company's stock compensation plans because their effect would be antidilutive.

The Board of Directors 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 \$345 million available at March 31, 2022. 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.

11. Liabilities for Outstanding Claims, Losses and Loss Adjustment Expenses

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 loss adjustment expenses (“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 “prior years’ loss reserves.” 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, unless otherwise indicated.

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

(in millions)	Three Months Ended March 31,	
	2022	2021
Gross reserve for losses and LAE, beginning of period	\$ 6,447.6	\$ 6,024.0
Reinsurance recoverable on unpaid losses	1,693.8	1,641.6
Net reserve for losses and LAE, beginning of period	4,753.8	4,382.4
Net incurred losses and LAE in respect of losses occurring in:		
Current year	793.5	789.5
Prior years	(6.0)	(8.2)
Total incurred losses and LAE	787.5	781.3
Net payments of losses and LAE in respect of losses occurring in:		
Current year	191.1	178.5
Prior years	534.2	435.0
Total payments	725.3	613.5
Net reserve for losses and LAE, end of period	4,816.0	4,550.2
Reinsurance recoverable on unpaid losses	1,696.2	1,673.5
Gross reserve for losses and LAE, end of period	\$ 6,512.2	\$ 6,223.7

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 \$6.0 million and \$8.2 million in 2022 and 2021, respectively.

2022

For the three months ended March 31, 2022, net favorable loss and LAE development was \$6.0 million, primarily as a result of favorable Specialty development of \$13.2 million and favorable Core Commercial development of \$6.4 million, partially offset by unfavorable Personal Lines development of \$13.6 million. Specialty favorable development was primarily due to lower than expected losses within the marine, specialty industrial and commercial property, professional and executive, and surety lines. Core Commercial favorable development was primarily due to lower than expected losses in the workers’ compensation line. Personal Lines unfavorable development was due to higher than expected losses of \$13.9 million, in the homeowners line, primarily due to higher severity and longer cycle times in repair activity, primarily related to claims incurred in the fourth quarter of 2021.

2021

For the three months ended March 31, 2021, net favorable loss and LAE development was \$8.2 million. This was primarily due to lower than expected losses in the personal automobile line, driven by lower bodily injury and personal injury protection losses, primarily in accident year 2020, and lower than expected losses in the workers’ compensation line.

12. 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 actions 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.

13. Subsequent Events

There were no subsequent events requiring adjustment to the financial statements and no additional disclosure required in the notes to the consolidated financial statements.

PART I
ITEM 2

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 interim 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 interim consolidated financial statements and related footnotes included elsewhere in this Quarterly Report on Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 25, 2022.

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 insurance companies, 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 former life insurance businesses.

Executive Overview

Business operations consist of four operating segments: Core Commercial, Specialty, 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 that meet the needs of our customers. Our goal is to grow responsibly in all of our businesses, while managing volatility.

During the three months ended March 31, 2022, our net income was \$104.8 million, compared to \$92.7 million for the three months ended March 31, 2021, an increase of \$12.1 million, primarily due to higher operating income, partially offset by changes in the fair value of equity securities.

Operating income before interest expense and income taxes (a non-GAAP financial measure; see also "Results of Operations – Consolidated – Non-GAAP Financial Measures") was \$154.4 million for the three months ended March 31, 2022, compared to \$85.1 million for the three months ended March 31, 2021, an increase of \$69.3 million. This increase was primarily due to lower catastrophe losses and earned premium growth, partially offset by higher personal automobile current accident year losses. The higher personal automobile losses were primarily due to higher severity, as a result of inflation and to supply chain disruptions.

Pre-tax catastrophe losses were \$45.5 million for the three months ended March 31, 2022, compared to \$133.3 million during the same period of 2021, a decrease of \$87.8 million. The higher level of catastrophe losses in 2021 was primarily due to the freeze events in Texas and surrounding states. Net favorable development on prior years' loss reserves was \$6.0 million for the three months ended March 31, 2022, compared to \$8.2 million for the three months ended March 31, 2021, a decrease of \$2.2 million.

As vaccination efforts and other factors have mitigated the ongoing severity of the COVID-19 pandemic ("Pandemic"), states are lifting restrictions, businesses that ceased operations are re-opening, new businesses are being created, and companies that shifted to remote work environments have begun transitioning back to the workplace. Nevertheless, the impact of the Pandemic on U.S. and global financial markets and economies continues to evolve, is complex and uncertain, and is outside our control. These complexities have been compounded by a substantial increase in inflation and supply chain disruptions. As a result, we are experiencing higher claims costs, particularly in our automobile and homeowners lines of business. Several other uncertainties persist, including, among others, return to workplace initiatives, virus variants, vaccination rates, driving patterns and court caseload backlogs. We continue to believe that the effect of these uncertainties on our near-term results should be manageable. However, they 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).

Core Commercial

Core Commercial entails two distinct businesses, small commercial and middle market, both of which focus on account business, including commercial multiple peril, commercial automobile, workers' compensation and other (general liability, ancillary professional, commercial umbrella, and monoline property). Small commercial focuses on small businesses, with annual policy premiums up to \$50,000. Small commercial recently launched TAP sales, a quoting platform, that has generated a 20% increase in new business submissions during the quarter, enhancing the ease of doing business. Middle market provides coverage to mid-sized businesses with annual policy premiums between \$50,000 and \$500,000. Middle market offers coverage in distinct industry segments, including technology, manufacturing, human services, retail, real estate, and others. We believe that our account-focused approach to the small commercial market and distinctiveness in the middle market 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 retail agents, enhanced franchise value through selective distribution, distinctive products and coverages, and through continued investment in industry segmentation. Net premiums written increased 9.6% in the first three months of 2022, compared to the same period in 2021, primarily driven by pricing and exposure increases and continued strong retention.

Underwriting results increased in the first three months of 2022, primarily due to lower catastrophe losses. The competitive nature of the Core Commercial 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.

Specialty

Specialty offers a competitive set of products that is focused predominately on small to mid-sized businesses. This includes numerous specialized product areas that are organized into four distinct divisions – Professional and Executive Lines, Specialty Property and Casualty (“Specialty P&C”), Marine, and Surety and Other. We believe that this distribution of Specialty products, primarily with retail agents supplemented by select specialists, serves as a complement to our Core Commercial business and helps to enhance our overall agent value and increase growth opportunities. Net premiums written increased 9.4% in the first three months of 2022, compared to the same period in 2021, primarily due to pricing increases.

Underwriting results increased in the first three months of 2022, primarily due to lower catastrophe losses and higher favorable development of prior years’ loss reserves. The competitive nature of the Specialty 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 by 10.1% in the first three months of 2022, compared to the same period in 2021, primarily due to increased new business production and improved retention. Underwriting results decreased in the first three months of 2022, primarily due to higher current accident year personal automobile losses and unfavorable development of prior years’ loss reserves in our homeowners line, partially offset by earned premium growth.

Description of Operating Segments

Primary business operations include insurance products and services currently provided through four operating segments: Core Commercial, Specialty, Personal Lines and Other. Core Commercial includes commercial multiple peril, commercial automobile, workers’ compensation, and other commercial lines coverages provided to small and mid-sized businesses. Specialty includes four divisions of business: Professional and Executive Lines, Specialty P&C, Marine, and Surety and Other. Specialty P&C includes coverages such as program business (provides commercial insurance to markets with specialized coverage or risk management needs related to groups of similar businesses), specialty industrial and commercial property, and excess and surplus lines. 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 our run-off voluntary assumed property and casualty pools and run-off direct asbestos and environmental businesses. During the first quarter of 2022, we disaggregated our former Commercial Lines segment into the aforementioned Core Commercial and Specialty segments. Prior periods reflect this new presentation. This presentation is 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 primarily of interest on our senior and subordinated debentures.

Results of Operations – Consolidated

Consolidated net income for the three months ended March 31, 2022 was \$104.8 million, compared to \$92.7 million for the three months ended March 31, 2021, an increase of \$12.1 million. The increase in consolidated net income was primarily due to an increase in operating income before interest expense and income taxes for the three months ended March 31, 2022, partially offset by higher after-tax net realized and unrealized investment losses of approximately \$43.8 million, primarily related to the change in the fair value of equity securities. Operating income before interest expense and income taxes increased \$69.3 million primarily due to lower catastrophe losses and earned premium growth, partially offset by higher current accident year losses in our Personal Lines segment.

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The following table reflects operating income 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).

<i>(in millions)</i>	Three Months Ended March 31,	
	2022	2021
Operating income (loss) before interest expense and income taxes:		
Core Commercial	\$ 67.5	\$ (14.8)
Specialty	50.0	17.0
Personal Lines	36.3	81.8
Other	0.6	1.1
Operating income before interest expense and income taxes	154.4	85.1
Interest expense on debt	(8.5)	(8.5)
Operating income before income taxes	145.9	76.6
Income tax expense on operating income	(28.2)	(15.2)
Operating income	117.7	61.4
Non-operating items:		
Net realized and unrealized investment gains (losses)	(15.9)	37.5
Income tax benefit (expense) on non-operating items	3.5	(6.1)
Income from continuing operations, net of taxes	105.3	92.8
Discontinued operations (net of taxes):		
Loss from discontinued life businesses	(0.5)	(0.1)
Net income	\$ 104.8	\$ 92.7

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 four 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 loss adjustment expenses (“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:

<i>(in millions)</i>	Three Months Ended March 31,	
	2022	2021
Operating revenues		
Net premiums written	\$ 1,312.3	\$ 1,196.1
Net premiums earned	\$ 1,263.8	\$ 1,161.8
Net investment income	76.9	76.8
Other income	5.9	6.0
Total operating revenues	1,346.6	1,244.6
Losses and operating expenses		
Losses and LAE	787.5	781.3
Amortization of deferred acquisition costs	262.9	240.3
Other operating expenses	141.8	137.9
Total losses and operating expenses	1,192.2	1,159.5
Operating income before interest expense and income taxes	\$ 154.4	\$ 85.1

Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

Operating income before interest expense and income taxes was \$154.4 million for the three months ended March 31, 2022, compared to \$85.1 million for the three months ended March 31, 2021, an increase of \$69.3 million. This increase was primarily due to lower catastrophe losses and earned premium growth, partially offset by higher personal automobile current accident year losses.

Net premiums written increased \$116.2 million for the three months ended March 31, 2022, compared to the three months ended March 31, 2021, primarily due to rate and exposure increases and continued strong retention.

Production and Underwriting Results

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

<i>(dollars in millions)</i>	Three Months Ended March 31, 2022						
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Core Commercial	\$ 591.9	\$ 526.6	\$ 474.7	4.1	60.2	32.8	93.0
Specialty	379.1	302.8	283.8	2.7	52.3	35.4	87.7
Personal Lines	499.1	482.9	505.3	3.6	69.9	27.2	97.1
Total	\$ 1,470.1	\$ 1,312.3	\$ 1,263.8	3.6	62.3	31.1	93.4

<i>(dollars in millions)</i>	Three Months Ended March 31, 2021						
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Core Commercial	\$ 539.9	\$ 480.6	\$ 435.2	21.7	78.7	33.0	111.7
Specialty	344.1	276.8	257.7	9.5	62.9	35.9	98.8
Personal Lines	453.6	438.7	468.9	3.1	59.0	28.0	87.0
Total	\$ 1,337.6	\$ 1,196.1	\$ 1,161.8	11.5	67.2	31.6	98.8

The following table summarizes U.S. GAAP underwriting results for the Core Commercial, Specialty, Personal Lines and Other segments and reconciles them to operating income before interest expense and income taxes.

(in millions)	Three Months Ended March 31,									
	2022					2021				
	Core Commercial	Specialty	Personal Lines	Other	Total	Core Commercial	Specialty	Personal Lines	Other	Total
Underwriting profit, excluding prior year reserve development and catastrophes	\$ 45.5	\$ 28.3	\$ 44.1	\$ —	\$ 117.9	\$ 40.4	\$ 25.8	\$ 68.2	\$ —	\$ 134.4
Prior year favorable (unfavorable) loss and LAE reserve development on non-catastrophe losses	6.4	13.2	(13.6)	—	6.0	2.7	0.6	5.2	(0.3)	8.2
Prior year favorable (unfavorable) catastrophe development	—	—	—	—	—	0.1	(0.1)	—	—	—
Current year catastrophe losses	(19.7)	(7.6)	(18.2)	—	(45.5)	(94.5)	(24.3)	(14.5)	—	(133.3)
Underwriting profit (loss)	32.2	33.9	12.3	—	78.4	(51.3)	2.0	58.9	(0.3)	9.3
Net investment income	35.4	16.2	22.6	2.7	76.9	36.9	14.9	22.1	2.9	76.8
Fees and other income	1.0	1.3	2.8	0.8	5.9	0.8	1.6	2.3	1.3	6.0
Other operating expenses	(1.1)	(1.4)	(1.4)	(2.9)	(6.8)	(1.2)	(1.5)	(1.5)	(2.8)	(7.0)
Operating income (loss) before interest expense and income taxes	\$ 67.5	\$ 50.0	\$ 36.3	\$ 0.6	\$ 154.4	\$ (14.8)	\$ 17.0	\$ 81.8	\$ 1.1	\$ 85.1

Core Commercial

Core Commercial net premiums written were \$526.6 million for the three months ended March 31, 2022, compared to \$480.6 million for the three months ended March 31, 2021. This \$46.0 million increase was primarily driven by pricing and exposure increases and continued strong retention.

Core Commercial underwriting profit for the three months ended March 31, 2022 was \$32.2 million, compared to a \$51.3 million loss for the three months ended March 31, 2021, a favorable change of \$83.5 million. Catastrophe losses for the three months ended March 31, 2022 were \$19.7 million, compared to \$94.4 million for the three months ended March 31, 2021, a decrease of \$74.7 million. The higher catastrophe losses in 2021 were primarily due to freeze events in Texas and surrounding states. Net favorable development on prior year's loss reserves for the three months ended March 31, 2022 was \$6.4 million, compared to \$2.7 million for the three months ended March 31, 2021, an increase of \$3.7 million.

Core Commercial current accident year underwriting profit, excluding catastrophes, was \$45.5 million for the three months ended March 31, 2022, compared to \$40.4 million for the three months ended March 31, 2021. This \$5.1 million increase was primarily driven by earned premium growth.

We continue to manage underwriting performance through rate actions, 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 competitive pricing environment, particularly within the workers' compensation line. Due to uncertainty caused by the Pandemic and the increase in inflation, there is a level of uncertainty in our ability to grow our business and maintain or improve our underwriting profitability in this environment. The extent and duration of these uncertainties are unknown and may result in an increase in claims costs and reduced premium levels.

Specialty

Specialty net premiums written were \$302.8 million for the three months ended March 31, 2022, compared to \$276.8 million for the three months ended March 31, 2021. This \$26.0 million increase was primarily driven by improved retention and pricing, especially in our Professional and Executive and Specialty P&C divisions.

Specialty underwriting profit for the three months ended March 31, 2022 was \$33.9 million, compared to \$2.0 million for the three months ended March 31, 2021, an increase of \$31.9 million. Catastrophe losses for the three months ended March 31, 2022 were \$7.6 million, compared to \$24.4 million for the three months ended March 31, 2021, a decrease of \$16.8 million. The higher catastrophe losses in 2021 were primarily due to freeze events in Texas and surrounding states. Net favorable development on prior year's loss reserves for the three months ended March 31, 2022 was \$13.2 million, compared to \$0.6 million for the three months ended March 31, 2021, an increase of \$12.6 million.

Specialty current accident year underwriting profit, excluding catastrophes, was \$28.3 million for the three months ended March 31, 2022, compared to \$25.8 million for the three months ended March 31, 2021. This \$2.5 million increase was primarily driven by earned premium growth.

We continue to manage underwriting performance through rate actions, 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 competitive pricing environment. Due to uncertainty caused by the Pandemic and the increase in inflation, there is a level of uncertainty in our ability to grow our business and maintain or improve our underwriting profitability in this environment. The extent and duration of these uncertainties are unknown and may result in an increase in claims costs and reduced premium levels.

Personal Lines

Personal Lines net premiums written were \$482.9 million for the three months ended March 31, 2022, compared to \$438.7 million for the three months ended March 31, 2021. The premium growth of \$44.2 million was primarily driven by increased new business and retention.

Net premiums written in the personal automobile line of business for the three months ended March 31, 2022 were \$298.4 million, compared to \$280.7 million for the three months ended March 31, 2021, an increase of \$17.7 million. Personal automobile policies in force increased by 8.0%. Net premiums written in the homeowners and other lines of business for the three months ended March 31, 2022 were \$184.5 million, compared to \$158.0 million for the three months ended March 31, 2021, an increase of \$26.5 million. Homeowners policies in force increased by 7.5%.

Personal Lines underwriting profit for the three months ended March 31, 2022 was \$12.3 million, compared to \$58.9 million for the three months ended March 31, 2021, a decrease of \$46.6 million. Catastrophe losses for the three months ended March 31, 2022 were \$18.2 million, compared to \$14.5 million for the three months ended March 31, 2021, an increase of \$3.7 million. Net unfavorable development on prior year's loss reserves for the three months ended March 31, 2022 was \$13.6 million, compared to \$5.2 million of favorable development for the three months ended March 31, 2021. The 2022 unfavorable development was primarily related to a higher severity of losses in our homeowners line.

Personal Lines current accident year underwriting profit, excluding catastrophes, was \$44.1 million for the three months ended March 31, 2022, compared to \$68.2 million for the three months ended March 31, 2021. This \$24.1 million decrease was primarily due to higher current accident year loss severity in our personal automobile line, partially offset by lower expenses and higher earned premium growth. We experienced an increase in physical damage and property severity associated with supply chain issues and limited availability of new vehicles due to chip shortages, higher used vehicle prices, and higher cost of parts.

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 long-term. Our ability to maintain Personal Lines net premiums written may be affected, however, by price competition, and regulatory and legal activity and 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 and the increase in inflation, there is a level of uncertainty in our ability to retain or grow our business, and may result in an increase in claims costs.

Other

Our Other segment had operating income of \$0.6 million for the three months ended March 31, 2022, compared to \$1.1 million for the three months ended March 31, 2021, a decrease of \$0.5 million.

Reserve for Losses and Loss Adjustment Expenses

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

<i>(in millions)</i>	Three Months Ended March 31,	
	2022	2021
Gross reserve for losses and LAE, beginning of period	\$ 6,447.6	\$ 6,024.0
Reinsurance recoverable on unpaid losses	1,693.8	1,641.6
Net reserve for losses and LAE, beginning of period	4,753.8	4,382.4
Net incurred losses and LAE in respect of losses occurring in:		
Current year	793.5	789.5
Prior year non-catastrophe loss development	(6.0)	(8.2)
Total incurred losses and LAE	787.5	781.3
Net payments of losses and LAE in respect of losses occurring in:		
Current year	191.1	178.5
Prior years	534.2	435.0
Total payments	725.3	613.5
Net reserve for losses and LAE, end of period	4,816.0	4,550.2
Reinsurance recoverable on unpaid losses	1,696.2	1,673.5
Gross reserve for losses and LAE, end of period	\$ 6,512.2	\$ 6,223.7

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

<i>(in millions)</i>	March 31, 2022	December 31, 2021
Commercial multiple peril	\$ 1,329.4	\$ 1,338.4
Workers' compensation	472.5	473.1
Commercial automobile	708.1	698.5
Other core commercial	501.5	481.0
Total Core Commercial	3,011.5	2,991.0
Specialty Property & Casualty	811.9	798.6
Professional and Executive Lines	511.0	494.9
Marine	123.3	122.5
Surety and Other	109.8	106.0
Total Specialty	1,556.0	1,522.0
Personal automobile	1,576.2	1,590.7
Homeowners and Other	303.1	277.7
Total Personal Lines	1,879.3	1,868.4
Total Other	65.4	66.2
Total loss and LAE reserves	\$ 6,512.2	\$ 6,447.6

Loss and LAE reserves in our "Other core commercial" lines include general liability, commercial umbrella, and monoline property. "Specialty Property & Casualty" includes program business, specialty industrial and commercial property, and excess and surplus lines. "Professional and Executive Lines" includes professional and management liability, fidelity and crime, and other property and liability lines for healthcare firms. Loss and LAE reserves in our "Total Other" segment relate to our run-off voluntary assumed property and casualty reinsurance pools business and our run-off direct asbestos and environmental business.

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

(in millions)	Three Months Ended March 31,					
	2022			2021		
	Loss & LAE	Catastrophe	Total	Loss & LAE	Catastrophe	Total
Core Commercial	\$ (6.4)	\$ —	\$ (6.4)	\$ (2.7)	\$ (0.1)	\$ (2.8)
Specialty	(13.2)	—	(13.2)	(0.6)	0.1	(0.5)
Personal Lines	13.6	—	13.6	(5.2)	—	(5.2)
Other	—	—	—	0.3	—	0.3
Total prior year favorable development	\$ (6.0)	\$ —	\$ (6.0)	\$ (8.2)	\$ —	\$ (8.2)

It is not possible to know whether the factors that affected loss reserves in the first three months of 2022 will also occur in future periods. We encourage you to read our 2021 Annual Report on Form 10-K for more information about our reserving process and the judgments, uncertainties and risks associated therewith.

Catastrophe Loss Development

For the three months ended March 31, 2022 and 2021, there was no net catastrophe loss development.

2022 Loss and LAE Development, excluding catastrophes

For the three months ended March 31, 2022, net favorable loss and LAE development, excluding catastrophes, was \$6.0 million. Core Commercial favorable loss and LAE development of \$6.4 million was primarily due to lower than expected losses in the workers' compensation line, primarily in accident year 2020. Specialty favorable loss and LAE development of \$13.2 million was primarily due to lower than expected losses in our marine, specialty industrial and commercial property, professional and executive, and surety lines. Personal Lines unfavorable loss and LAE development of \$13.6 million was due to higher than expected losses in the homeowners line of \$13.9 million. The increase in homeowners losses was primarily due to higher severity and longer cycle times in repair activity, primarily related to claims incurred in the fourth quarter of 2021.

2021 Loss and LAE Development, excluding catastrophes

For the three months ended March 31, 2021, net favorable loss and LAE development, excluding catastrophes, was \$8.2 million. This was primarily due to lower than expected losses in the personal automobile line, driven by lower bodily injury and personal injury protection losses primarily in accident year 2020, and in the workers' compensation line, primarily in accident years 2015 through 2017 and 2019.

Reinsurance Recoverables

Reinsurance recoverables were \$1,940.3 million and \$1,907.3 million at March 31, 2022 and December 31, 2021, respectively, of which \$128.6 million and \$100.4 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 Michigan Catastrophic Claims Association (the "MCCA") were \$55.7 million and \$49.8 million at March 31, 2022 and December 31, 2021, respectively, and billed non-MCCA reinsurance recoverables totaled \$72.9 million and \$50.6 million at March 31, 2022 and December 31, 2021, respectively. At March 31, 2022, \$0.3 million of the billed non-MCCA recoverables were outstanding greater than 90 days, whereas at December 31, 2021, there were no balances outstanding greater than 90 days.

Investments

Investment Results

Net investment income before income taxes was as follows:

<i>(dollars in millions)</i>	Three Months Ended March 31,	
	2022	2021
Fixed maturities	\$ 55.8	\$ 54.5
Limited partnerships	15.2	15.1
Mortgage loans	4.4	5.4
Equity securities	3.6	3.8
Other investments	0.8	0.7
Investment expenses	(2.9)	(2.7)
Net investment income	\$ 76.9	\$ 76.8
Earned yield, fixed maturities	2.95%	3.11%
Earned yield, total portfolio	3.52%	3.74%

The increase in net investment income for the three months ended March 31, 2022 was primarily due to the continued investment of operational cash flows, partially offset by the impact of lower new money yields and lower mortgage income.

Investment Portfolio

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

<i>(dollars in millions)</i>	March 31, 2022		December 31, 2021	
	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value
Fixed maturities, at fair value	\$ 7,382.2	81.6 %	\$ 7,723.9	82.3 %
Equity securities, at fair value	607.0	6.7	661.3	7.0
Mortgage and other loans	438.5	4.9	434.0	4.6
Other investments	347.6	3.8	333.4	3.6
Cash and cash equivalents	272.0	3.0	230.9	2.5
Total cash and investments	\$ 9,047.3	100.0 %	\$ 9,383.5	100.0 %

Cash and Investments

Total cash and investments decreased \$336.2 million, or 3.6%, for the three months ended March 31, 2022 as compared to December 31, 2021. The decrease was primarily due to net market value depreciation, partially offset by cash received from the MCCA to refund policyholders. Through March 31, 2022, \$34.4 million of the MCCA refund was paid to policyholders and \$148.9 million is expected to be paid during the second quarter of 2022.

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

<i>(in millions)</i> Investment Type	March 31, 2022			
	Amortized Cost, Net of Allowance for Credit Losses	Fair Value	Net Unrealized Gain (Loss)	Change in Net Unrealized For the Year
U.S. Treasury and government agencies	\$ 404.0	\$ 381.7	\$ (22.3)	\$ (24.2)
Foreign government	2.2	2.3	0.1	(0.3)
Municipals:				
Taxable	1,166.5	1,113.0	(53.5)	(77.3)
Tax-exempt	23.1	22.9	(0.2)	(1.0)
Corporate	3,999.4	3,911.5	(87.9)	(246.8)
Asset-backed:				
Residential mortgage-backed	1,060.2	999.0	(61.2)	(62.6)
Commercial mortgage-backed	824.1	796.4	(27.7)	(49.7)
Asset-backed	165.3	155.4	(9.9)	(9.8)
Total fixed maturities	\$ 7,644.8	\$ 7,382.2	\$ (262.6)	\$ (471.7)

The change in net unrealized gain (loss) on fixed maturities was primarily due to higher prevailing interest rates and, to a lesser extent, wider credit spreads.

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

(dollars in millions) NAIC Designation	Rating Agency Equivalent Designation	March 31, 2022				December 31, 2021			
		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	
1	Aaa/Aa/A	\$ 5,010.9	\$ 4,829.3	65.4	%	\$ 4,867.5	\$ 4,987.6	64.6	%
2	Baa	2,256.5	2,186.2	29.6		2,302.2	2,380.4	30.8	
3	Ba	230.2	223.4	3.0		216.9	225.2	2.9	
4	B	140.8	136.4	1.9		123.2	125.3	1.6	
5	Caa and lower	6.4	6.9	0.1		5.0	5.4	0.1	
Total fixed maturities		<u>\$ 7,644.8</u>	<u>\$ 7,382.2</u>	<u>100.0</u>	<u>%</u>	<u>\$ 7,514.8</u>	<u>\$ 7,723.9</u>	<u>100.0</u>	<u>%</u>

Based on ratings by the National Association of Insurance Commissioners (“NAIC”), approximately 95% of the fixed maturity portfolio consisted of investment grade securities at both March 31, 2022 and December 31, 2021. 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” included in Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our 2021 Annual Report on Form 10-K. 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:

(dollars in millions) Duration	March 31, 2022				December 31, 2021			
	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	
0-2 years	\$ 1,036.5	\$ 1,044.8	14.2	%	\$ 1,080.2	\$ 1,108.3	14.3	%
2-4 years	1,535.3	1,539.4	20.8		1,581.1	1,660.9	21.5	
4-6 years	2,230.1	2,176.7	29.5		2,263.8	2,349.0	30.4	
6-8 years	2,162.9	2,001.9	27.1		1,603.8	1,622.4	21.0	
8-10 years	570.7	517.5	7.0		854.9	846.5	11.0	
10+ years	109.3	101.9	1.4		131.0	136.8	1.8	
Total fixed maturities	<u>\$ 7,644.8</u>	<u>\$ 7,382.2</u>	<u>100.0</u>	<u>%</u>	<u>\$ 7,514.8</u>	<u>\$ 7,723.9</u>	<u>100.0</u>	<u>%</u>
Weighted average duration		<u>4.9</u>				<u>4.9</u>		

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 Interim 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.

Impairments

For the three months ended March 31, 2022, we recognized net impairments on fixed maturities of \$0.9 million, consisting of \$0.6 million of credit-related losses and \$0.3 million categorized as intend-to-sell. For the three months ended March 31, 2021, we did not recognize any impairments.

At March 31, 2022 and December 31, 2021, the allowance for credit losses on mortgage loans was \$7.1 million and the allowance for credit losses on available-for-sale debt securities was \$0.9 million and \$0.3 million, respectively.

At March 31, 2022 and December 31, 2021 we held no fixed maturity securities on non-accrual status. At March 31, 2021, fixed maturities on non-accrual status were not material and the effect of non-accruals for the three months ended March 31, 2021, compared with amounts that would have been recognized in accordance with the original terms of the fixed maturities, 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 March 31, 2022 were \$312.2 million, an increase of \$264.2 million compared to December 31, 2021, primarily attributable to higher interest rates and, to a lesser extent, wider credit spreads. At March 31, 2022, gross unrealized losses consisted primarily of \$123.1 million on corporate fixed maturities, \$62.6 million on residential mortgage-backed securities, \$62.4 million on municipals, \$29.6 million on commercial mortgage-backed securities, and \$24.4 million on U.S. government securities. See Note 3 – “Investments” in the Notes to Interim 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; 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 March 31, 2022 and December 31, 2021. 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.

<i>(in millions)</i>	March 31, 2022	December 31, 2021
Due after one year through five years	\$ 11.3	\$ 0.7
Due after five years through ten years	156.2	19.4
Due after ten years	42.4	10.9
	209.9	31.0
Mortgage-backed and asset-backed securities	102.3	17.0
Total fixed maturities	\$ 312.2	\$ 48.0

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.

Economic growth in the U.S. remains positive, driven by strength in the overall labor market and consumer spending. However, a number of risks have created greater uncertainty in the near-term. The spike in interest rates has led to a tightening of financial conditions for businesses and consumers which may impact consumer spending and corporate profitability. Lingering effects of the Pandemic, such as supply chain interruptions and labor market imbalances, have yet to be fully resolved. In addition, implications of the invasion of Ukraine by Russia and the impact of recently imposed sanctions, higher energy and commodity prices, as well as broad global trade disruptions impose additional risks. Despite this uncertainty, indicators of economic activity and employment have remained strong in the U.S. It is unclear how these risks will affect the continued economic recovery and our investment portfolio.

With inflation having exceeded their 2 percent target for some time, combined with improvement in the labor market, the Federal Reserve (the “Fed”) raised the federal funds rate by 0.25% in March and anticipates that ongoing increases in the target range will be appropriate. Additionally, it expects to reduce its holdings of Treasury and agency securities in coming months. 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, accelerated winding down of the program may result in market disruptions. In assessing the appropriate stance of monetary policy, the Fed will continue to monitor the implications of incoming information on its economic outlook.

Fundamental conditions in certain corporate sectors remain challenging, such as lodging and hospitality, 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.

Other Items

Net income also included the following items:

<i>(in millions)</i>	Three Months Ended March 31,					
	Core Commercial	Specialty	Personal Lines	Other	Discontinued Operations	Total
2022						
Net realized and unrealized investment gains (losses)	\$ (7.6)	\$ (3.5)	\$ (4.9)	\$ 0.1	\$ —	\$ (15.9)
Discontinued life businesses	—	—	—	—	(0.5)	(0.5)
2021						
Net realized and unrealized investment gains	\$ 18.6	\$ 7.5	\$ 11.2	\$ 0.2	\$ —	\$ 37.5
Discontinued life businesses	—	—	—	—	(0.1)	(0.1)

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

Net realized and unrealized investment losses were \$15.9 million for the three months ended March 31, 2022, compared to net realized and unrealized gains of \$37.5 million for the three months ended March 31, 2021. For the three months ended March 31, 2022 and 2021, net realized and unrealized investment gains (losses) were primarily due to changes in the fair value of equity securities.

Discontinued operations include our discontinued accident and health and life businesses. Losses of \$0.5 million and \$0.1 million the three months ended March 31, 2022 and 2021, primarily reflect adverse loss trends related to the long-term care pool.

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).

Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

The provision for income taxes from continuing operations was an expense of \$24.7 million and \$21.3 million for the three months ended March 31, 2022 and 2021, respectively. These provisions resulted in consolidated effective federal tax rates of 19.0% and 18.7% for the three months ended March 31, 2022 and 2021, respectively. These provisions include excess tax benefits related to stock-based compensation of \$2.8 million and \$1.0 million for the three months ended March 31, 2022 and 2021, respectively. In addition, the provision for 2021 reflects benefits related to tax planning strategies implemented in prior years of \$1.9 million. Absent these items, the provision for income taxes would have been an expense of \$27.5 million and \$24.2 million for the three months ended March 31, 2022 and 2021, respectively, or 21.2% for both periods.

The income tax provision on operating income was an expense of \$28.2 million and \$15.2 million for the three months ended March 31, 2022 and 2021, respectively. These provisions resulted in effective tax rates for operating income of 19.3% and 19.8% for the three months ended March 31, 2022 and 2021, respectively. These provisions include excess tax benefits related to stock-based compensation of \$2.8 million and \$1.0 million for the three months ended March 31, 2022 and 2021, respectively. Absent this item, the provisions for income taxes would have been an expense of \$31.0 million, or 21.2%, and \$16.2 million, or 21.1%, for the three months ended March 31, 2022 and 2021, respectively.

Critical Accounting Estimates

Interim consolidated financial statements have been prepared in conformity with U.S. GAAP and include certain accounting policies that we consider to be critical due to the amount of judgment and uncertainty inherent in the application of those policies. While we believe that the amounts included in our consolidated financial statements reflect our best judgment, the use of different assumptions could produce materially different accounting estimates. As disclosed in our 2021 Annual Report on Form 10-K, we believe the following accounting estimates are critical to our operations and require the most subjective and complex judgment:

- Reserve for losses and loss expenses
- Reinsurance recoverable balances
- Pension benefit obligations
- Investment credit losses

For a more detailed discussion of these critical accounting estimates, see our 2021 Annual Report on Form 10-K.

Statutory Surplus of Insurance Subsidiaries

The following table reflects statutory surplus for our insurance subsidiaries:

<i>(in millions)</i>	March 31, 2022	December 31, 2021
Total Statutory Capital and Surplus	\$ 2,809.6	\$ 2,720.0

The statutory capital and surplus for our insurance subsidiaries increased \$89.6 million during the first three months of 2022. This increase was primarily driven by an increase in underwriting profits and net realized investment gains, partially offset by net unrealized investment losses, primarily due to changes in the fair value of equity securities.

The NAIC prescribes an annual calculation regarding risk-based capital (“RBC”). RBC ratios for regulatory purposes 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 March 31, 2022, 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>	Company Action Level	Authorized Control Level	RBC Ratio Industry Scale	RBC Ratio Regulatory Scale
The Hanover Insurance Company	\$ 1,190.6	\$ 595.3	235%	470%

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”). During the first quarter of 2022, Hanover Insurance did not pay dividends to the holding company.

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 \$200.1 million during the first three months of 2022, as compared to \$141.8 million during the first three months of 2021. The \$58.3 million increase in cash provided was primarily due to the receipt of \$183.3 million of surplus funds received from the MCCA, partially offset by \$34.4 million that were remitted to policyholders in the first quarter of 2022. We expect to remit the remainder of these funds to policyholders in the second quarter of 2022. Additionally, cash was provided by an increase in premiums received, partially offset by an increase in loss and LAE payments.

Net cash used in investing activities was \$112.2 million during the first three months of 2022, as compared to \$78.6 million during the first three months of 2021. During the first three months of 2022 and 2021, cash used in investing activities primarily related to net purchases of fixed maturities.

Net cash used in financing activities was \$46.8 million during the first three months of 2022, as compared to \$71.7 million during the first three months of 2021. During the first three months of 2022, cash used in financing activities primarily resulted from the quarterly dividend payment to our shareholders and, to a lesser extent, the repurchase of common stock. During the first three months of 2021, cash used in financing activities primarily resulted from the repurchase of common stock and from the quarterly dividend payment to shareholders.

Dividends to common shareholders are subject to quarterly board approval and declaration. During the first three months of 2022, as declared by the Board, we paid a quarterly dividend of \$0.75 per share to our shareholders totaling \$26.7 million. We believe that our holding company assets are sufficient to provide for future shareholder dividends should the Board of Directors declare them.

At March 31, 2022, THG, as a holding company, held approximately \$333.1 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 our 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. 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 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. During the first three months of 2022 we repurchased approximately 0.1 million shares at an aggregate cost of \$16.3 million. As of March 31, 2022, we had repurchased 7.8 million shares under this \$1.3 billion program and had approximately \$345 million available for additional repurchases.

We maintain our membership in the Federal Home Loan Bank ("FHLB") to provide access to additional liquidity based on our holdings of FHLB stock and pledged collateral. At March 31, 2022, we had borrowing capacity of \$116.6 million. There were no outstanding borrowings under this short-term facility at March 31, 2022 however, we have 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 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 under this agreement during the first three months of 2022. The LIBOR rate, upon which Adjusted LIBOR is based, is in 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 March 31, 2022, we were in compliance with the covenants of our debt and credit agreements.

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, legal contingencies and regulatory matters appears in Part I – Note 12 "Commitments and Contingencies" in the Notes to Interim Consolidated Financial Statements.

Risks and Forward-Looking Statements

Information regarding risk factors and forward-looking information appears in Part II – Item 1A of this Quarterly Report on Form 10-Q and in Part I – Item 1A of our 2021 Annual Report on Form 10-K. This Management's Discussion and Analysis should be read and interpreted in light of such factors.

ITEM 3
QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK

Our market risks, the ways we manage them, and sensitivity to changes in interest rates, and equity price risk are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2021, included in our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no material changes in the first three months of 2022 to these risks or our management of them.

ITEM 4
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 that 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 quarterly 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 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, as required by Rule 13a-15(d) of the Exchange Act, to determine whether any changes occurred during the period covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that there were no such changes during the quarter ended March 31, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – 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 actions 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 1A – RISK FACTORS

This document contains, and management may make, certain “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. When used in our Management's Discussion and Analysis, words such as: “believes,” “anticipates,” “expects,” “projections,” “outlook,” “should,” “could,” “plan,” “guidance,” “likely,” “on track to,” “potential,” “continue,” “targeted,” and similar expressions are intended to identify forward-looking statements. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. We caution readers that accuracy with respect to forward-looking projections is difficult and subject to risks and uncertainties. Those risks and uncertainties, in some cases, have affected, and in the future could affect, our actual results and could cause our actual results for the remainder of 2022 and beyond to differ materially from historical results and from those expressed in any of our forward-looking statements. We operate in a business environment that is continually changing, and as such, new risk factors may emerge over time. Additionally, our business is conducted in competitive markets and, therefore, involves a higher degree of risk. We cannot predict these new risk factors, nor can we assess the impact, if any, that they may have on our business in the future.

Some of the factors that could cause actual results to differ include, but are not limited to, the following:

- changes in the demand for our products;
- risks and uncertainties with respect to our ability to retain profitable policies in force and attract profitable policies and to increase rates commensurate with, or in excess of, loss trends;
- adverse claims experience or changes in our estimates of loss and loss adjustment expense reserves, including with respect to catastrophes, which may result in lower current year underwriting income or adverse loss development, and could impact our carried reserves;
- uncertainties with respect to the long-term profitability of our products, including with respect to newer products, or longer-tail products covering casualty losses;
- disruption in our distribution channels, including the loss or disruption of our independent agency channel, including the impact of competition and consolidation in the industry and among agents and brokers;
- changes in frequency and loss severity trends;
- changes in regulation, legislation, economic, market and political conditions, particularly with respect to rates, policy terms and conditions, payment flexibility, and regions where we have geographical concentrations;
- volatile and unpredictable developments, including severe weather and other natural physical events, catastrophes, pandemics, civil unrest, and terrorist actions, and the uncertainty in estimating the resulting losses;
- changes in weather patterns, whether as a result of global climate change, or otherwise, causing a higher level of losses from weather events to persist;
- limitations on the physical ability to adjust claims or the availability of sufficient information to accurately estimate a loss at a point in time and the limitations and assumptions used to model property and casualty losses in general;
- risks and uncertainties with respect to our ability to collect all amounts due from reinsurers and to maintain current levels of reinsurance in the future at commercially reasonable rates, or at all;
- heightened volatility, fluctuations in interest rates (which have a significant impact on the market value of our investment portfolio and thus our book value), inflationary pressures, default rates and other factors that affect investment returns from our investment portfolio;

- risks and uncertainties associated with our participation in shared market mechanisms, mandatory reinsurance programs and mandatory and voluntary pooling arrangements, including the MCCA;
- an increase in mandatory assessments by state guaranty funds;
- risks and uncertainties associated with the Michigan legislation that took effect on July 2, 2020 and reformed the prior requirements that all personal and commercial automobile policies issued in the state include no-fault personal injury protection coverage without a cap on maximum benefits allowed and the resulting increase in litigation challenging or associated with this reform;
- actions by our competitors, many of which are larger or have greater financial resources than we do;
- loss, prolonged illness or retirement of key employees;
- operating difficulties and other unintended consequences from the introduction of new products and related technology changes and applications, as well as new operating models;
- changes in our claims-paying and financial strength ratings;
- negative changes in our level of statutory surplus;
- risks and uncertainties with respect to our growth or operating strategies, or with respect to our expense and strategic initiatives;
- our ability to declare and pay dividends;
- changes in accounting principles and related financial reporting requirements;
- errors or omissions in connection with the administration of any of our products;
- risks and uncertainties with our operations and technology, including cloud-based data information storage, data security, cyber-security attacks, remote working capabilities, and/or outsourcing relationships and third-party operations and data security that may negatively impact our ability to conduct business;
- an inability to be compliant with recently implemented regulations or existing regulation such as those relating to Sarbanes-Oxley;
- unfavorable developments as a result of the implementation of the enacted legislation in Michigan described above, or litigation matters, social inflation and the possibility of adverse judicial decisions, including those which expand policy coverage beyond its intended scope or award “bad faith” or other non-contractual damages;
- continuing risks and uncertainties associated with the impact of the Pandemic and related general economic conditions; and
- other factors described in such forward-looking statements.

In addition, historical and future reported financial results include estimates with respect to premiums written and earned, reinsurance recoverables, current accident year “picks,” loss and loss adjustment reserves and development, fair values of certain investments, other assets and liabilities, tax, contingent and other liabilities, and other items. These estimates are subject to change as more information becomes available.

Readers should not place undue reliance on forward-looking statements, which speak only as of the date they are made. We do not undertake any responsibility to update or revise our forward-looking statements, except as required by law.

For a more detailed discussion of our risks and uncertainties, see also Item 1A – Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Shares purchased in the first quarter of 2022 are as follows:

<i>Period</i>	Total Number of Shares Purchased(1)	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 <i>(in millions)</i>
January 1 - 31, 2022	47,921	\$ 134.37	47,285	\$ 355
February 1 - 28, 2022	41,780	138.29	41,450	349
March 1 - 31, 2022	104,527	140.96	30,094	345
Total	<u>194,228</u>	<u>\$ 138.76</u>	<u>118,829</u>	<u>\$ 345</u>

(1) Includes 636 shares, 330 shares and 74,433 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 January 31, February 28 and March 31, 2022, respectively.

ITEM 6 – EXHIBITS

EX – 10.1+	Form of Non-Qualified Stock Option Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan.
EX – 10.2+	Form of Restricted Stock Unit Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan.
EX – 10.3+	Form of Performance-Based Restricted Stock Unit Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan.
EX – 31.1	Certification of the 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.
EX – 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.
EX – 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.
EX – 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.
EX – 101	The following materials from The Hanover Insurance Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 formatted in Inline eXtensible Business Reporting Language ("iXBRL"): (i) Consolidated Statements of Income for the three months ended March 31, 2022 and 2021; (ii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2022 and 2021; (iii) Consolidated Balance Sheets at March 31, 2022 and December 31, 2021; (iv) Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2022 and 2021; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2022 and 2021, and (vi) related notes to these financial statements.
EX – 104	The cover page from The Hanover Insurance Group Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, formatted in iXBRL (embedded within EX – 101).

+ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

May 4, 2022
Date

The Hanover Insurance Group, Inc.
Registrant

/s/ John C. Roche
John C. Roche
President, Chief Executive Officer and Director

May 4, 2022
Date

/s/ Jeffrey M. Farber
Jeffrey M. Farber
Executive Vice President and Chief Financial Officer

THE HANOVER INSURANCE GROUP, INC.

NON-QUALIFIED STOCK OPTION AGREEMENT

This Non-Qualified Stock Option Agreement (the “*Agreement*”) is effective as of <GRANT DATE> (the “*Grant Date*”), by and between The Hanover Insurance Group, Inc., a Delaware corporation (the “*Company*”), and <PARTICIPANT NAME> (“*Participant*” or “*you*”). Capitalized terms used without definition herein shall have the meanings set forth in The Hanover Insurance Group 2014 Long-Term Incentive Plan (as it may be amended from time to time, the “*Plan*”).

PREAMBLE

WHEREAS, the Company considers it desirable and in the best interests of the Company that Participant be given an opportunity to acquire a proprietary interest in the Company in the form of an option to purchase shares of Stock.

NOW, THEREFORE, for and in consideration of the foregoing and the mutual covenants and promises hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Grant of Option. The Administrator hereby grants to Participant a non-statutory stock option (the “*Stock Option*”) to purchase <NUMBER OF OPTIONS> shares of Stock (the “*Shares*”), for a price of <GRANT PRICE> per share (the “*Option Price*”), which is not less than the per-Share fair market value on the Grant Date. The Stock Option is intended to be, and is hereby designated, a non-statutory option that does *not* qualify as an incentive stock option as defined in Section 422.
2. Expiration of Option. To the extent not earlier terminated, forfeited, or expired, the Stock Option shall automatically terminate and cease being exercisable on the tenth anniversary of the Grant Date (the “*Expiration Date*”).
3. Vesting. Subject to the terms of this Agreement and the Plan, and provided Participant remains continuously an Employee of the Company or one of its Affiliates (the Company and its Affiliates hereinafter referred to as “*THG*”) through the applicable vesting date except as set forth in Section 4 below, unless earlier terminated, forfeited, relinquished or expired, the Stock Option shall vest and become exercisable in the following cumulative installments:
 - As to one-third of the total number of Shares, on the first anniversary of the Grant Date;
 - As to an additional one-third of the total number of Shares, on the second anniversary of the Grant Date; and
 - As to the remaining Shares, on the third anniversary of the Grant Date.

On the first two vesting dates set forth above, to the extent the Stock Option would otherwise become vested and exercisable with respect to a fractional Share, such fractional Share shall not vest and the number of Shares becoming vested and exercisable on such vesting date shall be rounded down so that the Stock Option is only exercisable with respect to a whole number of Shares. In the event the vesting date falls on a non-business day (weekend or holiday on which banks are not generally open in the Commonwealth of Massachusetts), the vesting date shall be the next following business day.

4. Termination of Employment and Other Events¹.

- (a) Termination for Cause. If Participant's Employment is terminated for Cause or occurs in circumstances that in the sole discretion of the Administrator would have constituted grounds for Participant's Employment to be terminated for Cause, effective immediately

¹ Pursuant to Mr. Farber's Offer Letter dated September 21, 2016, in the event he is involuntarily terminated by the company without cause, or terminates employment for “good reason,” he is entitled to one year's additional vesting credit.

prior to such termination, the Stock Option, whether or not vested, shall be automatically cancelled and forfeited and shall be returned to the Company for no consideration.

- (b) Voluntary Termination. Except as set forth in Section 4(f) below, if Participant voluntarily terminates his/her Employment, effective immediately prior to such termination, any portion of the Stock Option that is not then vested shall be automatically cancelled and forfeited and shall be returned to the Company for no consideration, and such portion of the Stock Option that is then vested and exercisable shall remain exercisable until the earlier of (i) the last day of the three (3) month period following the date of such termination, or (ii) the Expiration Date.
- (c) Disability. If Participant is Disabled prior to the date this Stock Option becomes fully vested and exercisable pursuant to Section 3 of this Agreement, this Stock Option, to the extent then outstanding and unvested, shall automatically vest in full and become exercisable on the date Participant is Disabled. To the extent all or any portion of this Stock Option is outstanding and exercisable on the date Participant is Disabled (determined after giving effect to the preceding sentence), the Stock Option (or portion thereof) shall remain exercisable until the earlier of (x) the last day of the one (1) year period following the date Participant is Disabled, or (y) the Expiration Date. For purposes of this subsection, Participant shall be "Disabled" if he or she has been unable, for a period of twelve consecutive months, to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment and has been receiving income replacement benefits for a period of twelve consecutive months under the Company's Long-Term Disability Program. The date that Participant is Disabled for purposes of this Agreement is the twelve-month anniversary of the date Participant commences receiving such benefits under the Company's Long-Term Disability Program.

If Participant ceases to receive benefits under the Company's Long-Term Disability Program prior to becoming Disabled and immediately thereafter returns to active Employment, the Stock Option will continue to vest in accordance with Section 3 of this Agreement.

- (d) Death. If Participant's Employment is terminated due to his or her death prior to the date this Stock Option becomes fully vested and exercisable pursuant to Section 3 of this Agreement, this Stock Option, to the extent then outstanding and unvested, shall automatically vest in full and become exercisable on the date of Participant's death. To the extent all or any portion of the Stock Option is outstanding and exercisable on the date Participant dies (determined after giving effect to the preceding sentence), the Stock Option (or portion thereof) shall remain exercisable until the earlier of (x) last day of the one (1) year period following the date Participant is terminated due to death, or (y) the Expiration Date.
 - (e) Covered Transaction/Change in Control. In the event of a Covered Transaction (other than a Change in Control, whether or not it is a Covered Transaction), the Administrator shall, with respect to the Stock Option, take one of the actions set forth in Sections 7(a)(1), 7(a)(2) or 7(a)(3) of the Plan. Notwithstanding the terms of the Plan, in the event of a Change in Control (whether or not it is a Covered Transaction), the following rules shall apply:
 - (i) Except as provided below in Section 4(e)(ii), in the event of a Change in Control, to the extent the Stock Option is outstanding and unvested immediately prior to the Change in Control, the Stock Option shall automatically vest in full as of immediately prior to such Change in Control.
 - (ii) Notwithstanding Section 4(e)(i) above, no acceleration of vesting shall occur with respect to the Stock Option if the Administrator reasonably determines in good faith prior to the occurrence of the Change in Control that this Award shall be honored or assumed, or new rights substituted therefor (such honored, assumed or substituted award hereinafter called an "*Alternative Award*"), by Participant's employer (or the parent or a subsidiary of such
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employer) immediately following the Change in Control, provided that any such Alternative Award must:

- (A) be based on stock which is traded, or will be traded upon consummation of the Change in Control, on an established securities market;
- (B) provide Participant (or each Participant in a class of Participants) with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under this Award, including, but not limited to, an identical or better vesting schedule and accelerated vesting provisions;
- (C) have substantially equivalent economic value to this Award (determined at the time of the Change in Control); and
- (D) have terms and conditions which provide that in the event that Participant's employment is involuntarily terminated (other than for Cause) or Participant terminates employment for "Good Reason" (as defined below), in either case, prior to the third anniversary of the Grant Date, Participant shall automatically vest in 100% of the Alternative Award and any conditions on Participant's rights under, or any restrictions on transfer or exercisability applicable to, such Alternative Award shall be waived or shall lapse in full.

For this purpose, "*Good Reason*" shall mean the occurrence of one or more of the events listed below following a Change in Control:

(X) if Participant is a "Participant" (as that term is defined in the CIC Plan) in the Company's Amended and Restated Employment Continuity Plan or its successor plan (the "*CIC Plan*"), the occurrence of any of the events enumerated under the definition of "Good Reason" applicable to Participant's "Tier" Level as set forth in CIC Plan; or

(Y) if Participant is not a "Participant" in the CIC Plan, the occurrence of any of the following (A) a reduction in your rate of annual base salary as in effect immediately prior to such Change in Control; (B) a reduction in your annual short-term incentive compensation plan target award opportunity (but excluding the conversion of any cash incentive arrangement into an equity incentive arrangement of commensurate value or vice versa) from that which was in effect immediately prior to such Change in Control; or (C) any requirement that you relocate to an office more than 35 miles from the facility where you were located immediately prior to the Change in Control.

(iii) In the event Participant believes a "Good Reason" event has been triggered, Participant must give the Company (or Participant's employer, if not the Company) written notice within 30 days of the first occurrence of such triggering event and a proposed termination date which shall not be sooner than 60 days nor longer than 90 days after the date of such notice. Such notice shall specify Participant's basis for determining that "Good Reason" has been triggered. The Company (or Participant's employer, if applicable) shall have the right to cure a purported "Good Reason" within 30 days of receipt of said notice and, if so cured, a termination of Participant's Employment shall not be considered to be for "Good Reason" as a result of such event. If the event triggering "Good Reason" is not cured by the Company (or Participant's employer, if applicable) within 30 days of its receipt of such notice, Participant shall be required to terminate his/her Employment on the proposed termination date in order to have his/her termination of Employment be treated as a "Good Reason" termination hereunder.

(iv) Notwithstanding Sections 4(e)(i) and 4(e)(ii) above, the Administrator may elect, in its sole discretion at a time prior to the effective date of the Change in Control, to accelerate all or any portion of the Stock Option.

- (f) Retirement. If Participant's Employment terminates as a result of his/her Retirement, and such termination occurs on or after the December 31st immediately following the Grant Date, this Stock Option shall remain outstanding and shall continue to become exercisable in accordance with the vesting schedule set forth in Section 3 as if Participant remained in Employment on each applicable vesting date and, to the extent vested and exercisable, the Stock Option shall remain exercisable by the Participant until the Expiration Date.

For the purpose of this Agreement, a termination of Employment shall be deemed to be a "Retirement" if all of the following conditions are satisfied: (i) Participant's Employment terminates (other than for Cause), (ii) he or she is either (x) 65 years of age or older, as of the date of such termination, or (y) 60 years of age or older, as of the date of such termination and, immediately prior to such termination, Participant has been in continuous Employment for five or more years, and (iii)(1) Participant provides the Company not less than six months' advanced written notice of Participant's intent to retire (the "Notice Period"), and (2) Participant remains in continuous Employment and in good standing during such Notice Period and terminates Employment at the end of such Notice Period. The Company may, in its sole discretion waive, in whole or in part, the requirements of clause (iii) of the preceding sentence. In the event that Participant's Employment is terminated for Cause during the Notice Period the Stock Option will be automatically cancelled and forfeited and shall be returned to the Company for no consideration.

- (g) Involuntary Termination. If Participant's Employment is terminated (other than as a result of the events set forth above in this Section 4), effective immediately prior to such termination, any portion of the Stock Option that is not then vested shall be automatically cancelled and forfeited and shall be returned to the Company for no consideration, and such portion of the Stock Option that is then vested and exercisable shall remain exercisable until the earlier of (i) the last day of three (3) month period following the date of termination, or (ii) the Expiration Date.

5. Notice of Exercise and Payment for Shares. This Stock Option may be exercised by Participant or, if appropriate, Participant's legal representative, estate or beneficiary, by giving written notice to the Administrator stating the number of Shares to be purchased. Such notice must be accompanied by payment in full of the Option Price for the Shares to be purchased.

Exercise notices hereunder shall be in such form as is acceptable to the Administrator, including by electronic notice with electronic signature. If notice is provided by a person other than Participant, this Stock Option will not be deemed to have been exercised until the Administrator has received such evidence as it may require that the person exercising the Stock Option has the right to do so. Unless otherwise determined by the Administrator, such notices, and any other notices hereunder, must be in writing and, if to the Company, shall be delivered personally to the Human Resources Department or such other party as designated by the Company or mailed to its principal office and, if to Participant, shall be delivered personally or mailed to Participant at his or her address on the records of the Company.

Payment of the Option Price may be made in (a) shares of Stock (including through a "net exercise" (as set forth in subsection (b)), (b) by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Stock that would otherwise be issued upon exercise of the Stock Option by a number of whole shares having a fair market value equal to the aggregate Option Price of the Stock Option, (c) cash or a combination of shares of Stock and cash, or (d) through a broker-assisted exercise program acceptable to the Administrator.

To the extent that the Option Price of this Stock Option is less than the fair market value of a share of Stock by \$0.50 or more on the date described below (determined by using the closing price of a share of Stock on such date, or if the Stock is not traded on such date, the most recent date on which the Stock was traded), this Stock Option, to the extent then outstanding and vested, will be automatically exercised, without any action required on behalf of Participant, by a "net exercise" as described in clause (b) of the paragraph above, on (x) the Expiration Date, if Participant has remained continuously Employed from the Grant Date through the Expiration Date, or (y) the last day of the applicable post-termination of Employment exercise

period of this Stock Option as set forth in Section 4 above, if the Employment of Participant was involuntarily terminated by the Company for reasons other than for Cause, was terminated by reason of death, being Disabled or Retirement, or was voluntarily terminated by Participant.

6. Delivery of Shares. Upon receipt of notice and payment as provided hereunder, the Company shall make delivery of the Shares for which the Stock Option was exercised within a reasonable period, but in no event later than 30 days, thereafter.
 7. Non-Hire/Solicitation/Confidentiality/Code of Conduct. As a condition of Participant's eligibility to receive this Stock Option and regardless of whether such Stock Option vests or is exercised, Participant agrees that he or she will (a) not, directly or indirectly, during the term of Participant's Employment, and for a period of one year (two years if Participant terminates Employment by reason of Retirement) thereafter, hire, solicit, entice away or in any way interfere with THG's relationship with, any of its officers or employees, or in any way attempt to do so or participate with, assist or encourage a third party to do so; (b) neither disclose any of THG's confidential and proprietary information to any third party, nor use such information for any purpose other than for the benefit of THG and in accordance with THG's policies; (c) not, during the term of Participant's Employment, and for a period of one year (two years if Participant terminates Employment by reason of Retirement) thereafter, interfere with or seek to interfere with, THG's relationships with any of its policyholders, customers, clients, agents or vendors; and (d) at all times comply with (i) THG's Code of Conduct and other policies and procedures as in effect from time to time, and (ii) any non-competition, non-disclosure, non-solicitation or similar agreement he or she may have with the Company or any of its Affiliates. The terms of this Section 7 shall survive the expiration or earlier termination of this Agreement.
 8. Specific Performance/Damages.
 - (a) Participant hereby acknowledges and agrees that in the event of any breach of Section 7 of this Agreement, the Company would be irreparably harmed and could not be made whole by monetary damages. Participant accordingly agrees to waive the defense in any action for injunctive relief or specific performance that a remedy at law would be adequate and that the Company, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to an injunction or to compel specific performance of Section 7 of this Agreement.
 - (b) In addition to any other remedy to which the Company may be entitled at law or in equity (including the remedy provided in the preceding paragraph), Participant hereby acknowledges and agrees that in the event of any breach of Section 7 of this Agreement, Participant shall be required to refund to the Company the value received by Participant upon exercise of the Stock Option measured by the amount that the Stock Value exceeds the Option Price paid on exercise of the Stock Option; provided, however, that the Company makes any such claim, in writing, against Participant alleging a violation of Section 7 of this Agreement not later than two years following Participant's termination of Employment (three years in the event of a termination by reason of Retirement). For purposes of this Agreement, the "Stock Value" shall be the sale price of the Shares issued upon exercise of the Stock Option, if and to the extent such Shares were sold on the date of such exercise; otherwise, the "Stock Value" shall be the closing price of Shares as reported on the New York Stock Exchange (or such other exchange or facility as is determined by the Administrator if the Shares are not then traded on the New York Stock Exchange) on the date of the exercise of the Stock Option.
 9. Successors. The provisions of this Agreement will benefit and will be binding upon the permitted assigns, successors in interest, personal representatives, estates, heirs and legatees of each of the parties hereto. However, the Stock Option is non-assignable, except as may be permitted by the Plan.
 10. Interpretation. The terms of the Stock Option are as set forth in this Agreement and in the Plan. The Plan is incorporated into this Agreement by reference, which means that this Agreement is limited by and subject to the express terms and provisions of the Plan. In the event of a conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control.
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11. Facsimile or Electronic Signature. The parties may execute this Agreement by means of a facsimile or electronic signature.
 12. Entire Agreement; Counterparts. This Agreement and the Plan contains the entire understanding between the parties concerning the subject contained in this Agreement. Except for the Agreement and the Plan, there are no representations, agreements, arrangements, or understandings, oral or written, between or among the parties hereto, relating to the subject matter of this Agreement, that are not fully expressed herein. This Agreement may be signed in one or more counterparts, all of which shall be considered one and the same agreement.
 13. Further Assurances. Each party to this Agreement agrees to perform all further acts and to execute and deliver all further documents as may be reasonably necessary to carry out the intent of this Agreement.
 14. Severability. In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining provisions, or portions thereof, will not be affected, and such unenforceable provisions shall be automatically replaced by a provision as similar in terms as may be valid and enforceable.
 15. Construction. Whenever used in this Agreement, the singular number will include the plural, and the plural number will include the singular, and the masculine or neuter gender shall include the masculine, feminine, or neuter gender. The headings of the sections of this Agreement have been inserted for purposes of convenience and shall not be used for interpretive purposes. The Administrator shall have full discretion to interpret and administer this Agreement. Any actions or decisions by the Administrator in connection with this Agreement shall be conclusive and binding upon Participant.
 16. No Effect on Employment. Nothing contained in this Agreement shall be construed to limit or restrict the right of THG to terminate Participant's Employment at any time, with or without Cause, or to increase or decrease Participant's compensation from the rate of compensation in existence at the time this Agreement is executed.
 17. Taxes. The exercise of this Stock Option will give rise to "wages" subject to withholding. Participant expressly acknowledges and agrees that Participant's rights hereunder, including the right to be issued Shares upon exercise, are subject to Participant promptly remitting to the Company in cash (or by such other means as may be acceptable to the Administrator in its discretion) any amounts determined by the Company to be required to be withheld. No Shares will be transferred pursuant to the exercise of this Stock Option unless and until the person exercising this Stock Option has remitted to the Company an amount sufficient to satisfy any federal, state, or local withholding tax requirements, or has made other arrangements satisfactory to the Company with respect to such taxes. Participant authorizes the Company to withhold such amount from any amounts otherwise owed to Participant. The Company may, at its option, withhold a sufficient number of Shares from Shares otherwise to be delivered upon exercise of this Stock Option to satisfy the minimum federal, state and local tax withholding due and remit the balance of the Shares to Participant. If this Stock Option is automatically exercised as provided in the last paragraph of Section 5 above or if Participant pays the Option Price through a "net exercise" of this Stock Option as provided by Section 5 above, the minimum federal, state and local tax withholding due in connection with the exercise of this Stock Option shall be satisfied by the Company withholding a sufficient number of Shares from Shares otherwise to be delivered upon exercise of this Stock Option to satisfy with minimum federal, state and local tax withholding due.

The Company makes no representations to Participant with respect to the tax treatment of any amount paid or payable pursuant to this Award. While this Award is intended to be interpreted and operated to the extent possible so that any such amounts shall be exempt from the requirements of Section 409A, in no event shall THG be liable to Participant for or with respect to any taxes, penalties and/or interest which may be imposed upon any such amounts pursuant to Section 409A or any other federal or state tax law. To the extent that any such amount should be subject to Section 409A (or any other federal or state tax law), Participant shall bear the entire risk of any such taxes, penalties and or interest.
 18. Waiver of Jury Trial. By accepting this Award under the Plan, to the maximum extent permitted by law, Participant waives any right to a trial by jury in any action, proceeding or counterclaim concerning any
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rights under (a) the Plan, (b) any Award, or (c) any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection with any of the foregoing, and agrees that any such action, proceedings or counterclaim shall be tried before a court and not before a jury.

19. Additional Restrictions. The Administrator may cancel, rescind, withhold or otherwise limit or restrict the Stock Option (in whole or in part) at any time if Participant is not in compliance with all applicable provisions of this Agreement and the Plan, or if Participant breaches any agreement with THG, including with respect to the Code of Conduct or other policies of THG, or any non-competition, non-solicitation, confidentiality or other similar provisions. Without limiting the generality of the foregoing, the Administrator may recover the Stock Option and payments under or gain in respect thereto to the extent required to comply with Section 10D of the Securities Exchange Act of 1934, as amended, or any stock exchange or similar rule adopted under said Section. In addition, rights, payments and benefits under this Award shall be subject to repayment to, or recoupment by, THG in accordance with any clawback or recoupment policies and procedures that THG may adopt from time to time.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the Grant Date.

THE HANOVER INSURANCE GROUP, INC.

By: _____

Name: Denise Lowsley

Title: EVP & CHRO

<PARTICIPANT NAME>

THE HANOVER INSURANCE GROUP, INC.

RESTRICTED STOCK UNIT AGREEMENT

This Restricted Stock Unit Agreement (the “*Agreement*”) is effective as of <GRANT DATE> (the “*Grant Date*”) by and between The Hanover Insurance Group, Inc., a Delaware corporation (the “*Company*”), and <PARTICIPANT NAME> (“*Participant*” or “*you*”). Capitalized terms used without definition herein shall have the meanings set forth in The Hanover Insurance Group 2014 Long-Term Incentive Plan (as it may be amended from time to time, the “*Plan*”).

PREAMBLE

WHEREAS, pursuant and subject to the terms of the Plan and this Agreement, the Administrator has agreed to grant to Participant an Award of Restricted Stock Units (the “*RSUs*”).

NOW, THEREFORE, for and in consideration of the foregoing and the mutual covenants and promises hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. RSUs. The Administrator hereby grants to Participant <NUMBER OF RSUS> RSUs, each RSU representing the right to receive one share of Stock upon and subject to the restrictions, terms and conditions set forth below. The Stock issued upon vesting of the RSUs, if any, shall be referred to hereinafter as the “*Shares*”.
2. Vesting. Unless earlier terminated, forfeited, relinquished or expired, the RSUs shall vest in full on the third anniversary of the Grant Date (the “*Vesting Date*”); provided that Participant remains continuously an Employee of the Company or one of its Affiliates (the Company and its Affiliates hereinafter referred to as “*THG*”) throughout the period from the Grant Date until the Vesting Date except as set forth in Sections 4, 5, 6 and 7 below. In the event the Vesting Date falls on a non-business day (weekend or holiday on which banks are not generally open in the Commonwealth of Massachusetts), the Vesting Date shall be the next following business day.
3. Termination.¹ Except as provided in Sections 4, 5, 6 and 7 below, upon the termination of Participant's Employment for any reason, whether with or without Cause, for good reason or otherwise, any then unvested RSUs shall be automatically cancelled and forfeited and shall be returned to the Company for no consideration.
4. Disability. If Participant is Disabled prior to the Vesting Date, the RSUs shall automatically vest in full on the date Participant is Disabled. For purposes of this subsection, Participant shall be “Disabled” if he or she has been unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve months.
5. Death. If Participant's Employment is terminated due to his or her death prior to the Vesting Date, the RSUs shall automatically vest in full on the date of Participant's death.
6. Retirement. If, prior to the Vesting Date, Participant's Employment terminates as a result of his/her Retirement, and such termination occurs on or after the December 31st immediately following the Grant Date, the RSUs shall automatically vest in full on the date of such termination.

For the purpose of this Agreement, a termination of Employment shall be deemed to be a “*Retirement*”

¹¹ Pursuant to Mr. Farber's Offer Letter dated September 21, 2016, in the event he is involuntarily terminated by the company without cause, or terminates employment for “good reason,” he is entitled to one year's additional vesting credit.

” if all of the following conditions are satisfied: (i) Participant’s Employment terminates (other than for Cause), (ii) he or she is either (x) 65 years of age or older, as of the date of such termination, or (y) 60 years of age or older, as of the date of such termination and, immediately prior to such termination, Participant has been in continuous Employment for five or more years, and (iii)(1) Participant provides the Company not less than six months’ advanced written notice of Participant’s intent to retire (the “*Notice Period*”), and (2) Participant remains in continuous Employment and in good standing during such Notice Period and terminates Employment at the end of such Notice Period. The Company may, in its sole discretion waive, in whole or in part, the requirements of clause (iii) of the preceding sentence. In the event that Participant’s Employment is terminated for Cause during the Notice Period, the RSUs will be automatically cancelled and forfeited and shall be returned to the Company for no consideration.

7. **Covered Transaction/Change in Control.** In the event of a Covered Transaction (other than a Change in Control, whether or not it is a Covered Transaction), the Administrator shall, with respect to the RSUs, exercise discretion under Section 7(a)(1), 7(a)(2) or 7(a)(3) of the Plan consistent with the requirements of, and in compliance with, Section 409A of the Code. Notwithstanding the terms of the Plan, in the event a Change in Control (whether or not it is a Covered Transaction) that is a “change in control event” within the meaning of Section 409A occurs prior to the Vesting Date, the RSUs shall automatically vest in full on the date of such Change in Control.
 8. **Dividend Equivalents; Voting Rights.** In the event that a cash dividend is paid with respect to shares of Stock prior to the Vesting Date (or such earlier date that the RSUs are settled hereunder), on the payment date of any such cash dividend the number of RSUs held by Participant shall be increased by that number of RSUs which is equal to (i) the number of outstanding RSUs then held by Participant on the record date of the cash dividend multiplied by (ii) the amount of the cash dividend divided by (iii) the fair market value of a share of Stock on the date the dividend is paid. Any RSUs that are credited to Participant under this Section 8 shall be treated in the same manner as the RSUs granted under Section 1 of this Agreement and shall only vest and be settled to the extent they vest in accordance with this Agreement and otherwise satisfy the requirements under this Agreement. Upon vesting, any fractional Shares shall be rounded up such that only whole Shares are issued. Notwithstanding any of the foregoing, this Award shall not be interpreted to bestow upon Participant any equity interest or ownership in the Company prior to the date on which the Company delivers Shares and Participant shall not be entitled to any dividends (or, except as provided above, dividend equivalency rights) in respect of the RSUs or have any voting rights until and to the extent the RSUs vest and Shares are delivered in settlement of the RSUs.
 9. **Delivery of Shares and Payment of Dividend Equivalents.** The Company shall deliver Shares in respect of vested RSUs and shall pay any amounts in respect of dividend equivalents credited under Section 8 of this Agreement to Participant (or, in the event of Participant’s death, to Participant’s estate or beneficiary) on or as soon as reasonably practicable, but in no event more than 60 days, following the earliest of (i) the Vesting Date, (ii) the date of Participant’s death, (iii) the date of Participant’s Disability, or (iv) the consummation of a Change in Control that is a “change in control event” within the meaning of Section 409A. Notwithstanding the foregoing, if Participant is a “specified employee” (within the meaning of Section 409A), any Shares deliverable or amounts payable under this Award on account of Participant’s separation from service that constitute nonqualified deferred compensation (within the meaning of Section 409A) and would (but for this sentence) be payable within six (6) months following the date of such separation from service shall instead be paid on the next business day following the expiration of such six (6)-month period or, if earlier, upon Participant’s death.
 10. **Non-Hire/Solicitation/Confidentiality/Code of Conduct.** As a condition of Participant’s eligibility to receive the RSUs and regardless of whether such RSUs vest, Participant agrees that he or she will (a) not, directly or indirectly, during the term of Participant’s Employment, and for a period of one year (two years if Participant terminates Employment by reason of Retirement) thereafter, hire, solicit, entice away or in any way interfere with THG’s relationship with, any of its officers or employees, or in any way attempt to do so or participate with, assist or encourage a third party to do so; (b) neither disclose any of THG’s confidential and proprietary information to any third party, nor use such information for
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any purpose other than for the benefit of THG and in accordance with THG's policies; (c) not, during the term of Participant's Employment, and for a period of one year (two years if Participant terminates Employment by reason of Retirement) thereafter, interfere with or seek to interfere with, THG's relationships with any of its policyholders, customers, clients, agents or vendors; and (d) at all times comply with (i) THG's Code of Conduct and other policies and procedures as in effect from time to time, and (ii) any non-competition, non-disclosure, non-solicitation or similar agreement he or she may have with the Company or any of its Affiliates. The terms of this Section 10 shall survive the expiration or earlier termination of this Agreement.

11. Damages/Specific Performance.

- (a) Participant hereby acknowledges and agrees that in the event of any breach of Section 10 of this Agreement, the Company would be irreparably harmed and could not be made whole by monetary damages. Participant accordingly agrees to waive the defense in any action for injunctive relief or specific performance that a remedy at law would be adequate and that the Company, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to an injunction or to compel specific performance of Section 10 of this Agreement.
- (b) In addition to any other remedy to which the Company may be entitled at law or in equity (including the remedy provided in the preceding paragraph), Participant hereby acknowledges and agrees that in the event of any breach of Section 10 of this Agreement, Participant shall be required to refund to the Company the value received by Participant upon vesting of the RSUs; provided, however, that the Company makes any such claim, in writing, against Participant alleging a violation of Section 10 of this Agreement not later than two years following Participant's termination of Employment (three years in the event of a termination by reason of Retirement).

12. Notices. Notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Human Resources Department or such other party as designated by the Company or mailed to its principal office and, if to Participant, shall be delivered personally or mailed to Participant at his or her address on the records of the Company.

13. Successors. The provisions of this Agreement will benefit and will be binding upon the permitted assigns, successors in interest, personal representatives, estates, heirs and legatees of each of the parties hereto. However, the RSUs and any dividend equivalents are non-assignable, except as may be permitted by the Plan.

14. Interpretation. The terms of the RSUs are as set forth in this Agreement and in the Plan. The Plan is incorporated into this Agreement by reference, which means that this Agreement is limited by and subject to the express terms and provisions of the Plan. In the event of a conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control.

15. Facsimile and Electronic Signature. The parties may execute this Agreement by means of a facsimile or electronic signature.

16. Entire Agreement; Counterparts. This Agreement and the Plan contains the entire understanding between the parties concerning the subject contained in this Agreement. Except for the Agreement and the Plan, there are no representations, agreements, arrangements, or understandings, oral or written, between or among the parties hereto, relating to the subject matter of this Agreement, that are not fully expressed herein. This Agreement may be signed in one or more counterparts, all of which shall be considered one and the same agreement.

17. Further Assurances. Each party to this Agreement agrees to perform all further acts and to execute and deliver all further documents as may be reasonably necessary to carry out the intent of this Agreement.

18. Severability. In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining provisions, or portions thereof, will not be affected, and such unenforceable provisions shall be automatically replaced by a provision as similar in terms as may be valid and enforceable.
19. Construction. Whenever used in this Agreement, the singular number will include the plural, and the plural number will include the singular, and the masculine or neuter gender shall include the masculine, feminine, or neuter gender. The headings of the sections of this Agreement have been inserted for purposes of convenience and shall not be used for interpretive purposes. The Administrator shall have full discretion to interpret and administer this Agreement. Any actions or decisions by the Administrator in connection with this Agreement shall be conclusive and binding upon Participant.
20. No Effect on Employment. Nothing contained in this Agreement shall be construed to limit or restrict the right of THG to terminate Participant's Employment at any time, with or without Cause, or to increase or decrease Participant's compensation from the rate of compensation in existence at the time this Agreement is executed.
21. Taxes. The vesting and settlement of the RSUs and the payment of any dividend equivalent amounts will give rise to "wages" subject to withholding. Participant expressly acknowledges and agrees that Participant's rights hereunder, including the right to be issued Shares in settlement of the RSUs and the right to receive any payments of dividend equivalent amounts, are subject to Participant promptly remitting to the Company in cash (or by such other means as may be acceptable to the Administrator in its discretion) any amounts determined by the Company to be required to be withheld. No Shares will be transferred, and no payment of dividend equivalent amounts will be made, pursuant to the settlement of the RSUs unless and until Participant has remitted to the Company an amount sufficient to satisfy any federal, state, or local withholding tax requirements, or has made other arrangements satisfactory to the Company with respect to such taxes. Participant authorizes the Company to withhold such amount from any amounts otherwise owed to Participant, including such amounts as are necessary to satisfy any employment tax obligations arising prior to the settlement of the RSUs. The Company may, at its option, withhold from the Shares deliverable in settlement of the RSUs a sufficient number of Shares to satisfy the minimum federal, state and local tax withholding due.
- The Company makes no representations to Participant with respect to the tax treatment of any amount paid or payable pursuant to this Award. This Award is intended to be interpreted and operated to the extent possible so that any such amounts shall be exempt from the requirements of Section 409A, or to the extent this Award is subject to Section 409A, in a manner that complies with Section 409A. To the extent any payment or benefit that would be provided hereunder constitutes "deferred compensation" under Section 409A of the Code and is contingent on a termination of the Participant's employment, such payment or benefit will only be provided to the Participant if the Participant experiences a "separation from service" within the meaning of Section 409A (after giving effect to the presumptions contained therein). In no event shall THG be liable to Participant for or with respect to any taxes, penalties and/or interest which may be imposed upon any such amounts pursuant to Section 409A or any other federal or state tax law. To the extent that any payment or benefit should be subject to Section 409A (or any other federal or state tax law), Participant shall bear the entire risk of any such taxes, penalties and or interest.
22. Waiver of Jury Trial. By accepting this Award under the Plan, to the maximum extent permitted by law, Participant waives any right to a trial by jury in any action, proceeding or counterclaim concerning any rights under (a) the Plan, (b) any Award, or (c) any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection with any of the foregoing, and agrees that any such action, proceedings or counterclaim shall be tried before a court and not before a jury.
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23. **Additional Restrictions.** The Administrator may cancel, rescind, withhold or otherwise limit or restrict the RSUs (in whole or in part) at any time if Participant is not in compliance with all applicable provisions of this Agreement and the Plan, or if Participant breaches any agreement with THG, including with respect to the Code of Conduct or other policies of THG, or any non-competition, non-solicitation, confidentiality or other similar provisions. Without limiting the generality of the foregoing, the Administrator may recover the RSUs and payments under or gain in respect thereto to the extent required to comply with Section 10D of the Securities Exchange Act of 1934, as amended, or any stock exchange or similar rule adopted under said Section. In addition, rights, payments and benefits under this Award shall be subject to repayment to, or recoupment by, THG in accordance with clawback or recoupment policies and procedures that THG may adopt from time to time.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the Grant Date.

THE HANOVER INSURANCE GROUP, INC.

By: _____

Name: Denise Lowsley

Title: EVP &CHRO

<PARTICIPANT NAME>

THE HANOVER INSURANCE GROUP, INC.

PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT

This Performance-Based Restricted Stock Unit Agreement (the “*Agreement*”) is effective as of <GRANT DATE> (the “*Grant Date*”) by and between The Hanover Insurance Group, Inc., a Delaware corporation (the “*Company*”), and <PARTICIPANT NAME> (“*Participant*” or “*you*”). Capitalized terms used without definition herein shall have the meanings set forth in The Hanover Insurance Group 2014 Long-Term Incentive Plan (as it may be amended from time to time, the “*Plan*”).

PREAMBLE

WHEREAS, pursuant and subject to the terms of the Plan and this Agreement, the Administrator has agreed to grant to Participant performance-based Restricted Stock Units (the “*PBRsUs*”); and

WHEREAS, the PBRsUs will be subject to certain restrictions, the attainment of certain performance criteria and other terms and conditions as set forth in this Agreement.

NOW, THEREFORE, for and in consideration of the foregoing and the mutual covenants and promises hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. PBRsUs. The Administrator hereby grants to Participant <NUMBER OF PBRsUs> PBRsUs, each PBRsU representing the right to receive one share of Stock upon and subject to the restrictions, terms and conditions set forth below. The Stock issued upon vesting of the PBRsUs, if any, shall be referred to hereinafter as the “*Shares*”. The actual number of PBRsUs granted herein, if any, shall be subject to adjustment as set forth on Schedule A.

2. Vesting. The PBRsUs shall vest as set forth below.

Unless earlier terminated, forfeited, relinquished or expired, the PBRsUs will vest on the third anniversary of the Grant Date (the “*Vesting Date*”); provided:

- i) The Company achieves the corporate goals set forth on Schedule A (the “*Corporate Goals*”) by the date set forth on Schedule A (the “*Goal Completion Date*”). The actual number of PBRsUs that shall be earned and that shall vest, if any, shall be determined in accordance with the terms set forth on Schedule A; and
- ii) Participant remains continuously an Employee of the Company or any of its Affiliates (the Company and its Affiliates hereinafter referred to as “*THG*”) throughout the period from the Grant Date to the Vesting Date except as set forth in Sections 4, 5, 6 and 7 below.

The determination of (i) whether and to the extent the Corporate Goals set forth on Schedule A have been achieved, and (ii) any adjustment to the actual number of PBRsUs earned and vested, shall be in the sole and absolute discretion of the Administrator. All decisions by the Administrator shall be final and binding upon Participant. In the event the Vesting Date falls on a non-business day (weekend or holiday on which banks are not generally open in the Commonwealth of Massachusetts), the Vesting Date shall be the next following business day.

3. Termination of Employment.¹ Except as provided in Sections 4, 5, 6 and 7, upon the termination of Participant's Employment prior to the Vesting Date for whatever reason, whether with or without Cause, for good reason or otherwise, any then unvested PBRsUs shall be automatically cancelled and forfeited and shall be returned to the Company for no consideration.

¹¹ Pursuant to Mr. Farber's Offer Letter dated September 21, 2016, in the event he is involuntarily terminated by the company without cause, or terminates employment for “good reason,” he is entitled to one year's additional vesting credit.

4. Disability. In the event Participant is Disabled prior to the Vesting Date, Participant shall immediately vest in a pro-rata portion of the PBRsUs as determined below and the remaining unvested PBRsUs shall be automatically forfeited and returned to the Company for no consideration. For purposes of this subsection, the pro-rata portion of the PBRsUs that will vest shall be determined by dividing the number of days since the Grant Date through the date Participant is Disabled by 1,095 and applying this percentage to the number of PBRsUs earned, if any, as determined in accordance with Schedule A. Any fractional Shares shall be rounded up such that only whole Shares are issued. For purposes of this subsection, Participant shall be “Disabled” if he or she has been unable, for a period of twelve consecutive months, to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment and has been receiving income replacement benefits for a period of twelve consecutive months under the Company’s Long-Term Disability Program. The date that Participant is Disabled for purposes of this Agreement is the twelve-month anniversary of the date Participant commences receiving such benefits under the Company’s Long-Term Disability Program.

If Participant ceases to receive benefits under the Company’s Long-Term Disability Program prior to becoming Disabled and immediately returns to active Employment, the PBRsUs will continue to vest in accordance with Section 2 of this Agreement.

5. Death. In the event Participant’s Employment terminates due to his or her death prior to the Vesting Date, Participant shall immediately vest in a pro-rata portion of the PBRsUs and the remaining unvested PBRsUs shall be automatically forfeited and returned to the Company for no consideration. For purposes of this subsection, the pro-rata portion of the PBRsUs that will vest shall be determined by dividing the number of days that Participant was an Employee since the Grant Date through the date of his or her death by 1,095 and applying this percentage to the number of PBRsUs earned, if any, as determined in accordance with Schedule A. Any fractional Shares shall be rounded up such that only whole Shares are issued.

6. Covered Transaction/Change in Control. In the event of a Covered Transaction (other than a Change in Control, whether or not it is a Covered Transaction), the Administrator shall, with respect to the PBRsUs, take one of the actions set forth in Sections 7(a)(1), 7(a)(2) or 7(a)(3) of the Plan. Notwithstanding the terms of the Plan, in the event of a Change in Control (whether or not it is a Covered Transaction), the following rules shall apply:

- (a) Except as provided below in Section 6(c), upon consummation of a Change in Control, to the extent the PBRsUs are outstanding and unvested immediately prior to the Change in Control, Participant shall automatically vest in such number of PBRsUs as determined in Section 6(b) as of immediately prior to such Change in Control.
 - (b) The number of PBRsUs that shall vest pursuant to Section 6(a) above, if any, shall be determined in accordance with the level of achievement of the Corporate Goals as set forth on Schedule A.
 - (c) Notwithstanding Section 6(a) above, no acceleration of vesting shall occur with respect to the PBRsUs if the Administrator reasonably determines in good faith prior to the occurrence of a Change in Control that this Award of PBRsUs shall be honored or assumed, or new rights substituted therefor (such honored, assumed or substituted award hereinafter called an “*Alternative Award*”), by Participant’s employer (or the parent or a subsidiary of such employer) immediately following the Change in Control, provided that the Alternative Award shall be a time-based restricted stock unit award with respect to that number of units determined as set forth under Section 6(b) above that is no longer subject to any performance-based vesting requirement, and shall also:
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- (i) be based on stock which is traded, or will be traded upon consummation of the Change in Control, on an established securities market;
- (ii) provide Participant (or each Participant in a class of Participants) with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under this Award, including, but not limited to, an identical or better time-based vesting schedule and accelerated vesting provisions;
- (iii) have substantially equivalent economic value to this Award (determined at the time of the Change in Control and based upon the number of Shares Participant would have received had the Award been accelerated pursuant to Section 6(a) above); and
- (iv) have terms and conditions which provide that in the event that Participant's employment is involuntarily terminated (other than for Cause) or Participant terminates employment for "Good Reason" (as defined below), in either case, prior to the Vesting Date, Participant shall automatically vest in 100% of the Alternative Award and any conditions on Participant's rights under, or any restrictions on transfer or exercisability applicable to, such Alternative Award shall be waived or shall lapse in full.

For this purpose, "*Good Reason*" shall mean the occurrence of one or more of the events listed below following a Change in Control:

- (x) if Participant is a "Participant" (as that term is defined in the CIC Plan) in the Company's Amended and Restated Employment Continuity Plan or its successor plan (the "*CIC Plan*"), the occurrence of any of the events enumerated under the definition of "Good Reason" applicable to Participant's "Tier" level as set forth in the CIC Plan; or
 - (y) if Participant is not a "Participant" in the CIC Plan, the occurrence of any of the following (A) a reduction in Participant's rate of annual base salary as in effect immediately prior to such Change in Control; (B) a reduction in Participant's annual short-term incentive compensation plan target award opportunity (but excluding the conversion of any cash incentive arrangement into an equity incentive arrangement of commensurate value or vice versa) from that which was in effect immediately prior to such Change in Control; or (C) any requirement that you relocate to an office more than 35 miles from the facility where Participant was located immediately prior to the Change in Control.
- (d) In the event a Participant believes that a "Good Reason" event has been triggered, Participant must give the Company (or Participant's employer, if not the Company) written notice within 30 days of the first occurrence of such triggering event and a proposed termination date which shall be not sooner than 60 days nor later than 90 days after the date of such notice. Such notice shall specify Participant's basis for determining that "Good Reason" has been triggered. The Company (or Participant's employer, if applicable) shall have the right to cure a purported "Good Reason" within 30 days of receipt of said notice and, if so cured, a termination of Participant's Employment shall not be considered to be for "Good Reason" as a result of such event. If the event triggering "Good Reason" is not cured by the Company (or Participant's employer, if applicable) within 30 days of its receipt of such notice, Participant shall be required to terminate his/her Employment on the proposed termination date in order to have his/her termination of Employment treated as a "Good Reason" termination hereunder.
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- (e) Notwithstanding Sections 6(a) and (c) above, the Administrator may elect, in its sole discretion, exercised prior to the effective date of the Change in Control, to accelerate the vesting of all or any portion of the PBRsUs.
- (f) Upon vesting under Section 6 any remaining unvested PBRsUs shall be automatically cancelled and forfeited and returned to the Company for no consideration.

7. Retirement. If, prior to the Vesting Date, Participant's Employment terminates as a result of his/her Retirement, and such termination occurs on or after the December 31st immediately following the Grant Date, all PBRsUs that are outstanding and unearned as of such Retirement will remain outstanding and be eligible to be earned in accordance with Schedule A, and, to the extent so earned, will vest immediately upon being earned.

For the purpose of this Agreement, a termination of Employment shall be deemed to be a "Retirement" if all of the following conditions are satisfied: (i) Participant's Employment terminates (other than for Cause), (ii) he or she is either (x) 65 years of age or older, as of the date of such termination, or (y) 60 years of age or older, as of the date of such termination and, immediately prior to such termination, Participant has been in continuous Employment for five or more years, and (iii)(1) Participant provides the Company not less than six months' advanced written notice of Participant's intent to retire (the "Notice Period"), and (2) Participant remains in continuous Employment and in good standing during such Notice Period and terminates Employment at the end of such Notice Period. The Company may, in its sole discretion waive, in whole or in part, the requirements of clause (iii) of the preceding sentence. In the event that Participant's Employment is terminated for Cause during the Notice Period, the PBRsUs will be automatically cancelled and forfeited and shall be returned to the Company for no consideration.

Notwithstanding the foregoing, in the event a Change in Control occurs prior to Participant's termination of Employment as a result of his or her Retirement, effective immediately upon the occurrence of such Change in Control, the terms of this Section 7 will be void and shall immediately terminate and be of no further force and effect.

8. Termination of Agreement. Except as otherwise expressly set forth herein, if the Corporate Goals are not satisfied in accordance with the terms set forth on Schedule A by the Goal Completion Date, this Agreement shall automatically terminate and Participant shall be deemed to have forfeited all rights to the PBRsUs.
9. Dividend Equivalents; Voting Rights. In the event that a cash dividend is paid with respect to shares of Stock prior to the Vesting Date (or such earlier date that the PBRsUs are settled hereunder), on the payment date of any such cash dividend the number of PBRsUs held by Participant shall be increased by that number of PBRsUs which is equal to (i) the number of outstanding PBRsUs then held by Participant on the record date of the cash dividend multiplied by (ii) the amount of the cash dividend divided by (iii) the fair market value of a share of Stock on the date the dividend is paid. Any PBRsUs that are credited to Participant under this Section 9 shall be treated in the same manner as the PBRsUs granted under Section 1 of this Agreement and shall only vest and be settled to the extent they vest in accordance with this Agreement and otherwise satisfy the requirements under this Agreement. Upon vesting, any fractional Shares shall be rounded up such that only whole Shares are issued. Notwithstanding any of the foregoing, this Award shall not be interpreted to bestow upon Participant any equity interest or ownership in the Company prior to the date on which the Company delivers Shares and Participant shall not be entitled to any dividends (or, except as provided above, dividend equivalency rights) in respect of the PBRsUs or have any voting rights until and to the extent the PBRsUs vest and Shares are delivered in settlement of the PBRsUs. For avoidance of doubt, Participant shall only be entitled to dividend equivalent payments to the extent the underlying PBRsUs are earned and vested.
10. Delivery of Shares and Payment of Dividend Equivalents. The Company shall deliver Shares in respect of earned and vested PBRsUs and shall pay any amounts in respect of dividend equivalents credited under Section 9 of this Agreement with respect only to such earned and
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vested PBRSUs to Participant (or, in the event of Participant's death, to Participant's estate or beneficiary) on or as soon as reasonably practicable, but in no event more than 60 days, following the applicable vesting date (but in no event later than March 15th following the end of the Performance Period).

11. **Non-Hire/Solicitation/Confidentiality/Code of Conduct.** As a condition of Participant's eligibility to receive these PBRSUs and regardless of whether such PBRSUs vest, Participant agrees that he or she will (a) not, directly or indirectly, during the term of his or her Employment, and for a period of one year (two years if Participant terminates Employment by reason of Retirement) thereafter, hire, solicit, entice away or in any way interfere with THG's relationship with, any of its officers or employees, or in any way attempt to do so or participate with, assist or encourage a third party to do so; (b) neither disclose any of THG's confidential and proprietary information to any third party, nor use such information for any purpose other than for the benefit of THG and in accordance with THG's policies; (c) not, during the term of Participant's Employment, and for a period of one year (two years if Participant terminates Employment by reason of Retirement) thereafter, interfere with or seek to interfere with, THG's relationships with any of its policyholders, customers, clients, agents or vendors; and (d) at all times comply with (i) THG's Code of Conduct and other policies and procedures as in effect from time to time, and (ii) any non-competition, non-disclosure, non-solicitation or similar agreement he or she may have with the Company or any of its Affiliates. The terms of this Section 11 shall survive the expiration or earlier termination of this Agreement.
 12. **Damages/Specific Performance.**
 - (a) Participant hereby acknowledges and agrees that in the event of any breach of Section 11 of this Agreement, the Company would be irreparably harmed and could not be made whole by monetary damages. Participant accordingly agrees to waive the defense in any action for injunctive relief or specific performance that a remedy at law would be adequate and that the Company, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to an injunction or to compel specific performance of Section 11 of this Agreement.
 - (b) In addition to any other remedy to which the Company may be entitled at law or in equity (including the remedy provided in the preceding paragraph), Participant hereby acknowledges and agrees that in the event of any breach of Section 11 of this Agreement, Participant shall be required to refund to the Company the value received by Participant upon vesting of the PBRSUs; provided, however, that the Company makes any such claim, in writing, against Participant alleging a violation of Section 11 of this Agreement not later than two years following Participant's termination of Employment (three years in the event of a termination by reason of Retirement).
 13. **Notices.** Notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Human Resources Department or such other party as designated by the Company or mailed to its principal office and, if to Participant, shall be delivered personally or mailed to Participant at his or her address on the records of the Company.
 14. **Successors.** The provisions of this Agreement will benefit and will be binding upon the permitted assigns, successors in interest, personal representatives, estates, heirs and legatees of each of the parties hereto. However, the PBRSUs and any dividend equivalents are non-assignable, except as may be permitted by the Plan.
 15. **Interpretation.** The terms of the PBRSUs are as set forth in this Agreement and in the Plan. The Plan is incorporated into this Agreement by reference, which means that this Agreement is limited by and subject to the express terms and provisions of the Plan. In the event of a conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control.
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16. Facsimile and Electronic Signature. The parties may execute this Agreement by means of a facsimile or electronic signature.
17. Entire Agreement; Counterparts. This Agreement and the Plan contains the entire understanding between the parties concerning the subject contained in this Agreement. Except for the Agreement and the Plan, there are no representations, agreements, arrangements, or understandings, oral or written, between or among the parties hereto, relating to the subject matter of this Agreement, that are not fully expressed herein. This Agreement may be signed in one or more counterparts, all of which shall be considered one and the same agreement.
18. Further Assurances. Each party to this Agreement agrees to perform all further acts and to execute and deliver all further documents as may be reasonably necessary to carry out the intent of this Agreement.
19. Severability. In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining provisions, or portions thereof, will not be affected, and such unenforceable provisions shall be automatically replaced by a provision as similar in terms as may be valid and enforceable.
20. Construction. Whenever used in this Agreement, the singular number will include the plural, and the plural number will include the singular, and the masculine or neuter gender shall include the masculine, feminine, or neuter gender. The headings of the sections of this Agreement have been inserted for purposes of convenience and shall not be used for interpretive purposes. The Administrator shall have full discretion to interpret and administer this Agreement. Any actions or decisions by the Administrator in connection with this Agreement shall be conclusive and binding upon Participant.
21. No Effect on Employment. Nothing contained in this Agreement shall be construed to limit or restrict the right of THG to terminate Participant's Employment at any time, with or without Cause, or to increase or decrease Participant's compensation from the rate of compensation in existence at the time this Agreement is executed.
22. Taxes. The vesting and settlement of the PBRsUs and the payment of any dividend equivalent amounts will give rise to "wages" subject to withholding. Participant expressly acknowledges and agrees that Participant's rights hereunder, including the right to be issued Shares in settlement of the PBRsUs and the right to receive any payments of dividend equivalent amounts, are subject to Participant promptly remitting to the Company in cash (or by such other means as may be acceptable to the Administrator in its discretion) any amounts determined by the Company to be required to be withheld. No Shares will be transferred, and no payment of dividend equivalents amounts will be made, pursuant to the settlement of the PBRsUs unless and until Participant has remitted to the Company an amount sufficient to satisfy any federal, state, or local withholding tax requirements, or has made other arrangements satisfactory to the Company with respect to such taxes. Participant authorizes the Company to withhold such amount from any amounts otherwise owed to Participant, including such amounts as are necessary to satisfy any employment tax obligations arising prior to the settlement of the PBRsUs. The Company may, at its option, withhold from the Shares deliverable in settlement of the PBRsUs a sufficient number of Shares to satisfy the minimum federal, state and local tax withholding due.

The Company makes no representations to Participant with respect to the tax treatment of any amount paid or payable pursuant to this Award. While this Award is intended to be interpreted and operated to the extent possible so that any such amounts shall be exempt from the requirements of Section 409A, in no event shall THG be liable to Participant for or with respect to any taxes, penalties and/or interest which may be imposed upon any such amounts pursuant to Section 409A or any other federal or state tax law. To the extent that any such amount should be subject to Section 409A (or any other federal or state tax law), Participant shall bear the entire risk of any such taxes, penalties and or interest.

23. Waiver of Jury Trial. By accepting this Award under the Plan, to the maximum extent permitted by law, Participant waives any right to a trial by jury in any action, proceeding or counterclaim concerning any rights under (a) the Plan, (b) any Award, or (c) any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection with any of the foregoing, and agrees that any such action, proceedings or counterclaim shall be tried before a court and not before a jury.
24. Additional Restrictions. The Administrator may cancel, rescind, withhold or otherwise limit or restrict this Award (in whole or in part) at any time if Participant is not in compliance with all applicable provisions of this Agreement and the Plan, or if Participant breaches any agreement with THG, including with respect to the Code of Conduct or other policies of THG, or any non-competition, non-solicitation, confidentiality or other similar provisions. Without limiting the generality of the foregoing, the Administrator may recover the PBRsUs and payments under or gain in respect thereto to the extent required to comply with Section 10D of the Securities Exchange Act of 1934, as amended, or any stock exchange or similar rule adopted under said Section. In addition, rights, payments and benefits under this Award shall be subject to repayment to, or recoupment by, THG in accordance with any clawback or recoupment policies and procedures that THG may adopt from time to time.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the Grant Date.

THE HANOVER INSURANCE GROUP, INC.

By: _____
 Name: Denise Lowsley
 Title: Executive Vice President and CHRO

 <PARTICIPANT NAME>

**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 quarterly report on Form 10-Q 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: May 4, 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 quarterly report on Form 10-Q 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.

May 4, 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 Quarterly Report on Form 10-Q for the period ended March 31, 2022 (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: May 4, 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 Quarterly Report on Form 10-Q for the period ended March 31, 2022 (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

Jeffrey M. Farber
Executive Vice President and
Chief Financial Officer

Dated: May 4, 2022