HANOVER INSURANCE GROUP, INC.
Form 10-Q
August 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

June 30, 2011 For the quarterly period ended June 30, 2011

¨ **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	**04-3263626**
(State or other jurisdiction of incorporation or organization)	**(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)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the registrant s common stock was 45,462,909 as of August 2, 2011.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share data)	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
REVENUES				
Premiums	**$ 770.5**	$ 697.8	**$ 1,532.2**	$ 1,364.3
Net investment income	**61.0**	61.8	**121.4**	122.9
Net realized investment gains (losses):				
Net realized gains from sales and other	**14.2**	3.6	**18.9**	17.2
Net other than temporary impairment losses recognized in income	**(0.8)**	(3.4)	**(2.2)**	(6.1)
Total net realized investment gains	**13.4**	0.2	**16.7**	11.1
Fees and other income	**9.0**	8.5	**17.4**	16.6
Total revenues	**853.9**	768.3	**1,687.7**	1,514.9
LOSSES AND EXPENSES				
Losses and loss adjustment expenses	**617.5**	498.4	**1,128.5**	930.0
Policy acquisition expenses	**181.3**	163.0	**362.1**	317.4
Interest expense	**10.8**	11.7	**21.2**	21.0
Other operating expenses	**104.0**	92.1	**198.1**	184.1
Total losses and expenses	**913.6**	765.2	**1,709.9**	1,452.5
(Loss) income before federal income taxes	**(59.7)**	3.1	**(22.2)**	62.4
Federal income tax (benefit) expense:				
Current	**(26.4)**	(1.4)	**(22.3)**	(29.7)
Deferred	**(0.9)**	2.3	**4.6**	47.7
Total federal income tax (benefit) expense	**(27.3)**	0.9	**(17.7)**	18.0
(Loss) income from continuing operations	**(32.4)**	2.2	**(4.5)**	44.4
Gain (loss) from discontinued operations (net of income tax (expense) benefit of $(0.4) and $0.2 for the quarter ended June 30, 2011 and June 30, 2010 and $(0.1) and $0.1 for the six months ended June 30, 2011 and June 30, 2010)	**0.6**	0.1	**2.0**	(0.3)
Net (loss) income	**$ (31.8)**	$ 2.3	**$ (2.5)**	$ 44.1
PER SHARE DATA				
Basic				
(Loss) income from continuing operations	**$ (0.71)**	$ 0.05	**$ (0.10)**	$ 0.96
Gain from discontinued operations	**0.01**		**0.04**	
Net (loss) income per share	**$ (0.70)**	$ 0.05	**$ (0.06)**	$ 0.96

Weighted average shares outstanding	**45.4**	44.9	**45.4**	46.2
Diluted				
(Loss) income from continuing operations	**$ (0.71)**	$ 0.05	**$ (0.10)**	$ 0.95
Gain (loss) from discontinued operations	**0.01**		**0.04**	(0.01)
Net (loss) income per share	**$ (0.70)**	$ 0.05	**$ (0.06)**	$ 0.94
Weighted average shares outstanding	**45.4**	45.5	**45.4**	46.8

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

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THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except per share data)	**June 30, 2011**	**December 31, 2010**
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of $4,466.3 and $4,598.8)	**$ 4,697.9**	$ 4,797.9
Equity securities, at fair value (cost of $147.8 and $120.7)	**164.2**	128.6
Other investments	**44.0**	39.4
Total investments	**4,906.1**	4,965.9
Cash and cash equivalents	**721.6**	290.4
Accrued investment income	**53.7**	53.8
Premiums and accounts receivable, net	**760.9**	772.0
Reinsurance recoverable on paid and unpaid losses	**1,280.9**	1,254.2
Deferred policy acquisition costs	**348.9**	345.3
Deferred federal income taxes	**173.1**	177.4
Goodwill	**178.8**	179.2
Other assets	**428.9**	398.1
Assets of discontinued operations	**128.4**	133.6
Total assets	**$ 8,981.3**	$ 8,569.9
Liabilities		
Loss and loss adjustment expense reserves	**$ 3,406.4**	$ 3,277.7
Unearned premiums	**1,553.0**	1,520.3
Expenses and taxes payable	**519.0**	541.7
Reinsurance premiums payable	**33.1**	34.4
Debt	**857.9**	605.9
Liabilities of discontinued operations	**126.9**	129.4
Total liabilities	**6,496.3**	6,109.4
Commitments and contingencies		
Shareholders equity		
Preferred stock, $0.01 par value, 20.0 million shares authorized, none issued		
Common stock, $0.01 par value, 300.0 million shares authorized, 60.5 million shares issued	**0.6**	0.6
Additional paid-in capital	**1,782.5**	1,796.5
Accumulated other comprehensive income	**182.5**	136.7
Retained earnings	**1,222.9**	1,246.8
Treasury stock, at cost (15.3 and 15.6 million shares)	**(703.5)**	(720.1)
Total shareholders equity	**2,485.0**	2,460.5
Total liabilities and shareholders equity	**$ 8,981.3**	$ 8,569.9

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

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THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (UNAUDITED)

(In millions)	Six Months Ended June 30, 2011	2010
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	1,796.5	1,808.5
Employee and director stock-based awards and other	(14.0)	(11.8)
Balance at end of period	**1,782.5**	1,796.7
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
NET UNREALIZED APPRECIATION ON INVESTMENTS AND DERIVATIVE INSTRUMENTS:		
Balance at beginning of period	218.3	107.7
Net appreciation during the period:		
Net appreciation on available-for-sale securities and derivative instruments	41.0	125.7
Benefit (provision) for deferred federal income taxes	1.5	(31.5)
	42.5	94.2
Balance at end of period	260.8	201.9
DEFINED BENEFIT PENSION AND POSTRETIREMENT PLANS:		
Balance at beginning of period	(81.6)	(78.9)
Amount recognized as net periodic benefit cost during the period	5.1	4.9
Provision for deferred federal income taxes	(1.8)	(1.7)
	3.3	3.2
Balance at end of period	(78.3)	(75.7)
Total accumulated other comprehensive income	182.5	126.2
RETAINED EARNINGS		
Balance at beginning of period	1,246.8	1,141.1
Net (loss) income	(2.5)	44.1
Dividends to shareholders	(25.0)	(24.3)
Treasury stock issued for less than cost	(5.9)	(4.6)
Recognition of share-based compensation	9.5	6.7
Balance at end of period	1,222.9	1,163.0
TREASURY STOCK		
Balance at beginning of period	(720.1)	(620.4)
Shares purchased at cost		(126.0)

Net shares reissued at cost under employee stock-based compensation plans	16.6	11.5
Balance at end of period	(703.5)	(734.9)
Total shareholders equity	$ 2,485.0	$ 2,351.6

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

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THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Quarter Ended June 30,		Six Months Ended June 30,	
(In millions)	2011	2010	2011	2010
Net (loss) income	**$ (31.8)**	$ 2.3	**$ (2.5)**	$ 44.1
Other comprehensive income:				
Available-for-sale securities:				
Net appreciation during the period	**37.3**	66.3	**37.5**	121.4
Portion of other-than-temporary impairment losses transferred from other comprehensive income	**2.1**	1.7	**5.4**	4.3
(Provision) benefit for deferred federal income taxes	**(2.3)**	(11.2)	**0.8**	(31.5)
Total available-for-sale securities	**37.1**	56.8	**43.7**	94.2
Derivative instruments:				
Net depreciation during the period	**(1.9)**		**(1.9)**	
Benefit for deferred federal income taxes	**0.7**		**0.7**	
Total derivative instruments	**(1.2)**		**(1.2)**	
Pension and postretirement benefits:				
Amortization recognized as net periodic benefit costs:				
Net actuarial loss	**3.8**	4.3	**7.7**	8.6
Prior service cost	**(1.3)**	(1.5)	**(2.6)**	(2.9)
Transition asset		(0.4)		(0.8)
Total amortization recognized as net periodic benefit costs	**2.5**	2.4	**5.1**	4.9
Provision for deferred federal income taxes	**(0.9)**	(0.8)	**(1.8)**	(1.7)
Total pension and postretirement benefits	**1.6**	1.6	**3.3**	3.2
Other comprehensive income	**37.5**	58.4	**45.8**	97.4
Comprehensive income	**$ 5.7**	$ 60.7	**$ 43.3**	$ 141.5

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

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THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)	Six Months Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ (2.5)**	$ 44.1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net loss from retirement of debt	**2.2**	
Net realized investment gains	**(16.4)**	(10.4)
Net amortization and depreciation	**7.6**	7.8
Stock-based compensation expense	**7.3**	5.9
Amortization of deferred benefit plan costs	**5.1**	4.9
Deferred federal income taxes	**4.9**	47.6
Change in deferred acquisition costs	**(3.5)**	(42.1)
Change in premiums receivable, net of reinsurance premiums payable	**9.8**	(168.5)
Change in loss, loss adjustment expense and unearned premium reserves	**157.4**	189.9
Change in reinsurance recoverable	**(24.2)**	(3.7)
Change in expenses and taxes payable	**(11.5)**	(147.2)
Other, net	**(33.5)**	(20.8)
Net cash provided by (used in) operating activities	**102.7**	(92.5)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals and maturities of fixed maturities	**715.6**	560.6
Proceeds from disposals of equity securities and other investments	**2.9**	29.9
Purchases of fixed maturities	**(546.9)**	(519.6)
Purchases of equity securities and other investments	**(34.5)**	(17.4)
Net cash used for business acquisitions		(12.6)
Capital expenditures	**(4.5)**	(4.3)
Net payments related to swap agreements	**(1.9)**	
Net cash provided by investing activities	**130.7**	36.6
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of employee stock options	**3.9**	2.9
Proceeds from debt borrowings	**304.9**	198.0
Change in collateral related to securities lending program	**(30.5)**	(45.4)
Dividends paid to shareholders	**(25.0)**	(24.3)
Repurchases of debt	**(57.2)**	(0.4)
Repurchases of common stock		(130.6)
Other financing activities	**(0.6)**	(0.3)
Net cash provided by financing activities	**195.5**	0.5
Net change in cash and cash equivalents	**428.9**	(55.4)
Net change in cash related to discontinued operations	**2.3**	(0.2)
Cash and cash equivalents, beginning of period	**290.4**	316.5
Cash and cash equivalents, end of period	**$ 721.6**	$ 260.9

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

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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 subsidiaries (THG or the Company) have been prepared in accordance with generally accepted accounting principles 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 (Citizens), THG s principal property and casualty companies; and certain other insurance and non-insurance subsidiaries. These legal entities conduct their operations through several business segments discussed in Note 10 Segment Information . Additionally, the interim consolidated financial statements include the Company s discontinued operations, consisting of the Company s former life insurance businesses and its accident and health business. All intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of the Company s management, 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 six months ended June 30, 2011 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 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011.

2. New Accounting Pronouncements

Recently Implemented Standards

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Update No. 2010-29 (Topic 805) *Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force).* This update provides clarity on the presentation of comparable proforma financial statements for business combinations. Revenues and earnings of the combined entity should be disclosed as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. Additionally, this update requires the disclosure to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported proforma revenue and earnings. The disclosure guidance provided in this ASC update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company has implemented this guidance as of January 1, 2011. Implementing this guidance did not have an effect on the Company s financial position or results of operations upon adoption; however, it will likely have an impact on the Company s future business combinations, but the effect is dependent upon the specific acquisitions made in future periods.

In December 2010, the FASB issued ASC Update No. 2010-28 (Topic 350) *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force)*. This update modifies Step 1 of the goodwill impairment test for companies with zero or negative carrying amounts to require Step 2 of the goodwill impairment test to be performed if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. This ASC update is effective for annual and interim periods beginning after December 15, 2010. The Company has implemented this guidance as of January 1, 2011. The effect of implementing this guidance was not material to the Company s financial position or results of operations.

In July 2010, the FASB issued ASC Update No. 2010-20 (Topic 310) *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASC update is applicable for financing receivables recognized on a company s balance sheet that have a contractual right to receive payment either on demand or on fixed or determinable dates. This update enhances the disclosure requirements about the credit quality of financing receivables and the allowance for credit losses, at disaggregated levels. The disclosure guidance provided in the update relating to those required as of the end of the reporting period was effective for interim and annual reporting periods ending on or after December 15, 2010. The effect of implementing the guidance was not significant to the Company s financial statement disclosures. The disclosure guidance related to activity that occurs during the reporting period is effective for interim and annual reporting periods beginning on or after December 15, 2010. The implementation of the disclosure guidance related to activity was not significant to the Company s financial statement disclosures.

Recently Issued Standards

In June 2011, the FASB issued ASC Update 2011-05 (Topic 220) *Presentation of Comprehensive Income*. This ASC update requires companies to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. This ASC update should be applied retrospectively and is effective for interim and annual periods beginning after December 15, 2011. The Company expects that the implementation of this guidance will not have a significant impact to its financial statement presentation.

In May 2011, the FASB issued ASC Update 2011-04 (Topic 820) *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASC update results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The new guidance includes changes to how and when the valuation premise of highest and best use applies, clarification on the application of blockage factors and other premiums and discounts, as well as new and revised disclosure requirements. This ASC update is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating its fair value measurements to determine which, if any, of the measurement techniques that the Company uses will have to change as a result of the new guidance, and what additional disclosures will be required.

In October 2010, the FASB issued ASC Update 2010-26 (Topic 944) *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (a consensus of the FASB Emerging Issues Task Force)*. This update provides clarity in defining which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral, commonly known as deferred acquisition costs. Additionally, this update specifies that only costs associated with the successful acquisition of a policy or contract may be deferred, whereas current industry practice often includes costs relating to unsuccessful contract acquisitions. This ASC Update is effective for fiscal years beginning after December 15, 2011. The Company is currently assessing the impact of this guidance to its financial position and results of operations, and expects that amounts capitalized under the updated guidance will be less than under the Company s current accounting practice.

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3. Acquisitions

On July 1, 2011, the Company completed the previously announced acquisition of Chaucer Holdings PLC (Chaucer). Shareholders of Chaucer received 53.3 pence for each Chaucer share, which was paid in either cash or loan notes to those shareholders who elected to receive such notes in lieu of cash. The closing of the acquisition followed approval of the transaction by Chaucer shareholders on June 7, 2011, subsequent court approval in the UK and regulatory approvals in various jurisdictions. The following table summarizes the transaction in both UK Pounds Sterling (GBP) and US Dollars:

Aggregate purchase price announced on April 20, 2011		
based on 53.3p contract price	£ 297.7	$ 485.3
Actual consideration on July 14, 2011:		
Cash	£ 287.4	$ 455.0
Loan notes	8.3	13.2
Foreign exchange forward settlement		11.3
Total	£ 295.7	$ 479.5

The difference between the aggregate purchase price at signing and closing is attributable to the effect of currency fluctuations between the GBP and the US dollar, as well as a change in outstanding shares.

In connection with the transaction, the Company entered into a foreign exchange forward contract, which provided for an economic hedge between the agreed upon purchase price of Chaucer in GBP and currency fluctuations between the GBP and US dollar prior to close. This contract effectively locked in the US dollar equivalent of the purchase price to be delivered in GBP and was settled at a loss of $11.3 million, of which $4.7 million was recognized as of June 30, 2011 and the remaining $6.6 million will be recognized in the third quarter of 2011. The loss on the contract was due to a decrease in the exchange rate between the GBP and US dollar and was more than offset by the lower US dollars required to meet the GBP based purchase price.

This payment was funded from the THG holding company, which included approximately $300 million of proceeds from the senior unsecured notes issued on June 17, 2011. See Note 4 Debt for additional information.

On March 31, 2010, the Company acquired Campania Holding Company, Inc. (Campania) for a cash purchase price of approximately $24 million, subject to various terms and conditions. In the second quarter of 2011, the Company recognized an additional $2.8 million of consideration based upon the terms of the agreement. Campania specializes in insurance solutions for portions of the healthcare industry.

On December 3, 2009, the Company entered into a renewal rights agreement with OneBeacon Insurance Group, LTD. (OneBeacon). Through this agreement, the Company acquired access to a portion of OneBeacon s small and middle market commercial business at renewal, including industry programs and middle market niches. This transaction included consideration of $23 million, plus additional contingent consideration which totaled $11 million, primarily representing purchased renewal rights intangible assets which are included as Other Assets in the Consolidated Balance Sheets. The agreement was effective for renewals beginning January 1, 2010.

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4. Debt

Debt consists of the following:

(In millions)	June 30, 2011	December 31, 2010
Senior debentures (unsecured) maturing March 1, 2020	**$ 200.0**	$ 200.0
Senior debentures (unsecured) maturing June 15, 2021	**300.0**	
Senior debentures (unsecured) maturing October 15, 2025	**121.6**	121.6
Junior debentures	**74.2**	129.2
FHLBB borrowings	**143.4**	134.5
Capital securities	**18.0**	18.0
Surplus notes	**4.0**	4.0
Total principal debt	**$ 861.2**	$ 607.3
Unamortized fair value adjustment	**(0.4)**	(0.5)
Unamortized debt issuance costs	**(2.9)**	(0.9)
Total	**$ 857.9**	$ 605.9

On June 17, 2011, the Company issued $300 million aggregate principal amount of 6.375% senior unsecured notes due June 15, 2021. The senior debentures are subject to certain restrictive covenants, including limitations on the issuance or disposition of capital stock of restricted subsidiaries. These debentures pay interest semi-annually. The Company is in compliance with the covenants associated with this indenture.

In December 2010, the Company repurchased $36.5 million of Series B 8.207% Subordinated Deferrable Interest Debentures (Junior Debentures) at a cost of $38.5 million, resulting in a $2.0 million loss on the repurchase. On February 15, 2011, the Company repurchased $48.0 million of Junior Debentures at a cost of $50.5 million, resulting in a loss of $2.5 million on the repurchase. On June 28, 2011, the Company repurchased an additional $7.0 million of Junior Debentures at a cost of $6.7 million, resulting in a gain of $0.3 million on the repurchase. Total aggregate repurchases in 2011 were $55.0 million at a cost of $57.2 million, resulting in a net loss of $2.2 million.

The Company borrowed $125.0 million in 2009 from Federal Home Loan Bank of Boston (FHLBB). In July 2010, the Company committed to borrow an additional $46.3 million from FHLBB to finance the development of the City Square Project. These borrowings will be drawn in several increments from July 2010 to January 2012. These additional amounts mature on July 20, 2020 and carry fixed interest rates with a weighted average of 3.88%. Through June 30, 2011, the Company has borrowed $18.4 million under this arrangement. All interest associated with the $46.3 million will be capitalized through the construction phase of the City Square Project.

As collateral to FHLBB, Hanover Insurance pledged government agency securities with a fair value of $176.0 million and $162.7 million, for the aggregate borrowings of $143.4 million and $134.5 million as of June 30, 2011 and December 31, 2010, respectively. The fair value of the collateral pledged must be maintained at certain specified levels of the borrowed amount, which can vary depending on the type of assets pledged. The Company is in compliance with the covenants associated with these borrowings. If the fair value of this collateral declines below these specified levels, Hanover Insurance would be required to pledge additional collateral or repay outstanding borrowings. Hanover Insurance is permitted to voluntarily repay the outstanding borrowings at any time, subject to a repayment fee. As a requirement of membership in the FHLBB, Hanover Insurance maintains a certain level of investment in FHLBB stock. Total purchases of FHLBB stock were $8.7 million and $8.6 million at June 30, 2011 and December 31, 2010, respectively.

In April 2011, the Company entered into a bridge credit agreement for borrowings in an aggregate principal amount of up to $180 million to be used solely in connection with the acquisition of Chaucer. This bridge agreement terminated upon the issuance, on June 17, 2011, of the aforementioned $300 million aggregate principal amount of 6.375% senior unsecured notes. See Note 3 Acquisitions for additional information.

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5. Federal Income Taxes

Federal income tax expense for the six months ended June 30, 2011 and 2010 has been computed using estimated 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 Company and its subsidiaries file a consolidated income tax return in the U.S. federal jurisdiction. They are no longer subject to U.S. federal income tax examinations for years prior to 2005. Certain issues remain open for the 2005 and 2006 tax years and the Company remains under audit for 2007 and 2008. In addition, the Company and its subsidiaries file income tax returns in various state jurisdictions and are generally not subject to state income tax examinations for years prior to 2002.

6. Pension and Other Postretirement Benefit Plans

The components of net periodic pension cost for defined benefit pension and other postretirement benefit plans included in the Company s results of operations are as follows:

	Quarter Ended June 30,			
(In millions)	**2011**	**2010**	**2011**	**2010**
	Pension Benefits		Postretirement Benefits	
Service cost benefits earned during the period	**$**	$	**$**	$ 0.1
Interest cost	**7.9**	8.1	**0.6**	0.6
Expected return on plan assets	**(8.6)**	(8.7)		
Recognized net actuarial loss	**3.7**	4.2	**0.1**	0.1
Amortization of transition asset		(0.4)		
Amortization of prior service cost			**(1.3)**	(1.5)
Net periodic cost (benefit)	**$ 3.0**	$ 3.2	**$ (0.6)**	$ (0.7)

	Six Months Ended June 30,			
(In millions)	**2011**	**2010**	**2011**	**2010**
	Pension Benefits		Postretirement Benefits	
Service cost benefits earned during the period	**$**	$	**$**	$ 0.1
Interest cost	**15.8**	16.3	**1.2**	1.3
Expected return on plan assets	**(17.1)**	(17.5)		
Recognized net actuarial loss	**7.5**	8.4	**0.2**	0.2
Amortization of transition asset		(0.8)		
Amortization of prior service cost			**(2.6)**	(2.9)
Net periodic cost (benefit)	**$ 6.2**	$ 6.4	**$ (1.2)**	$ (1.3)

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7. Investments

A. Fixed maturities and equity securities

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

	June 30, 2011				
(In millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Unrealized Losses
Fixed maturities:					
U.S. Treasury and government agencies	**$ 212.2**	**$ 4.3**	**$ 2.1**	**$ 214.4**	**$**
Municipal	**944.2**	**34.1**	**9.2**	**969.1**	
Corporate	**2,260.3**	**179.5**	**22.7**	**2,417.1**	**16.1**
Residential mortgage-backed	**669.5**	**39.3**	**9.2**	**699.6**	**6.7**
Commercial mortgage-backed	**339.9**	**14.7**	**0.5**	**354.1**	
Asset-backed	**40.2**	**3.4**		**43.6**	
Total fixed maturities	**$ 4,466.3**	**$ 275.3**	**$ 43.7**	**$ 4,697.9**	**$ 22.8**
Equity securities	**$ 147.8**	**$ 17.0**	**$ 0.6**	**$ 164.2**	**$**

	December 31, 2010				
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Unrealized Losses
Fixed maturities:					
U.S. Treasury and government agencies	$ 259.4	$ 5.0	$ 3.2	$ 261.2	$
Municipal	952.7	21.3	19.3	954.7	
Corporate	2,276.0	174.6	30.2	2,420.4	19.5
Residential mortgage-backed	704.2	41.8	11.9	734.1	8.3
Commercial mortgage-backed	349.3	18.3	1.0	366.6	
Asset-backed	57.2	3.7		60.9	
Total fixed maturities	$ 4,598.8	$ 264.7	$ 65.6	$ 4,797.9	$ 27.8
Equity securities	$ 120.7	$ 9.8	$ 1.9	$ 128.6	$

Other-than-temporary impairments (OTTI) unrealized losses in the tables above represent OTTI recognized in accumulated other comprehensive income. This amount excludes net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date of $32.3 million and $36.1 million as of June 30, 2011 and December 31, 2010, respectively.

The amortized cost and fair value by maturity periods for fixed maturities are shown below. 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.

	June 30, 2011	
(In millions)	Amortized Cost	Fair Value

Due in one year or less	**$ 164.8**	**$ 167.3**
Due after one year through five years	**1,100.8**	**1,182.8**
Due after five years through ten years	**1,458.8**	**1,544.3**
Due after ten years	**692.3**	**706.2**
	3,416.7	**3,600.6**
Mortgage-backed and asset-backed securities	**1,049.6**	**1,097.3**
Total fixed maturities	**$ 4,466.3**	**$ 4,697.9**

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B. Derivative Instruments

The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to manage significant unplanned fluctuations in earnings that may be caused by foreign currency exchange and interest rate volatility.

In April 2011, the Company entered into a foreign currency forward contract as an economic hedge of the foreign currency exchange risk embedded in the purchase price of Chaucer, which was denominated in UK Pounds Sterling (GBP). For the quarter and six months ended June 30, 2011, the Company recorded a loss of $4.7 million, reflected in other operating expenses in the Consolidated Statements of Income. At June 30, 2011, the fair value of the derivative liability of $4.7 million was included in Expenses and taxes payable in the Consolidated Balance Sheets. This contract had a notional amount of £297.9 million and was settled on July 14, 2011. An additional loss of $6.6 million from this contract will be recognized during the third quarter of 2011. Since a foreign currency hedge in which the hedged item is a forecasted transaction relating to a business combination does not qualify for hedge accounting under ASC 815, *Derivatives and Hedging* (ASC 815), the Company did not apply hedge accounting to this transaction. The foreign currency forward was in a loss position at June 30, 2011, therefore, the Company paid collateral, in the form of cash and cash equivalents, with a fair value of $5.1 million to its counterparty. See Note 3 Acquisitions for additional information.

In May 2011, the Company entered into a treasury lock forward agreement to hedge the interest rate risk associated with the planned issuance of senior debt, which was completed on June 17, 2011. This hedge qualified as a cash flow hedge under ASC 815. It matured in June 2011 and resulted in a loss of $1.9 million, which was recorded in accumulated other comprehensive income and will be recognized as an expense over the term of the senior notes. All components of the derivative s loss were included in the assessment of hedge effectiveness. There was no ineffectiveness on this hedge. The Company expects $0.2 million to be reclassified into expense over the next 12 months.

C. Securities in an unrealized loss position

The following tables provide information about the Company s fixed maturities and equity securities that were in an unrealized loss position at June 30, 2011 and December 31, 2010.

	June 30, 2011					
	12 months or less		Greater than 12 months		Total	
(In millions)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Fixed maturities:						
Investment grade:						
U.S. Treasury and government agencies	**$ 1.8**	**$ 70.0**	**$ 0.3**	**$ 15.7**	**$ 2.1**	**$ 85.7**
Municipal	**3.0**	**147.9**	**6.2**	**79.9**	**9.2**	**227.8**
Corporate	**3.5**	**167.5**	**8.3**	**58.6**	**11.8**	**226.1**
Residential mortgage-backed	**2.1**	**81.0**	**7.1**	**25.1**	**9.2**	**106.1**
Commercial mortgage-backed	**0.2**	**18.6**	**0.3**	**4.7**	**0.5**	**23.3**
Total investment grade	**10.6**	**485.0**	**22.2**	**184.0**	**32.8**	**669.0**
Below investment grade:						
Corporate	**1.1**	**53.6**	**9.8**	**89.2**	**10.9**	**142.8**
Total fixed maturities	**11.7**	**538.6**	**32.0**	**273.2**	**43.7**	**811.8**
Equity securities	**0.6**	**14.9**			**0.6**	**14.9**
Total	**$ 12.3**	**$ 553.5**	**$ 32.0**	**$ 273.2**	**$ 44.3**	**$ 826.7**

	December 31, 2010					
	12 months or less		Greater than 12 months		Total	
(In millions)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Fixed maturities:						
Investment grade:						
U.S. Treasury and government agencies	$ 2.7	$ 84.9	$ 0.5	$ 16.4	$ 3.2	$ 101.3
Municipal	10.3	289.1	9.0	86.7	19.3	375.8
Corporate	6.7	256.1	10.5	66.8	17.2	322.9
Residential mortgage-backed	3.1	89.1	8.8	31.0	11.9	120.1
Commercial mortgage-backed	0.1	13.1	0.9	7.3	1.0	20.4
Total investment grade	22.9	732.3	29.7	208.2	52.6	940.5
Below investment grade:						
Corporate	1.0	51.1	12.0	90.0	13.0	141.1
Total fixed maturities	23.9	783.4	41.7	298.2	65.6	1,081.6
Equity securities	1.9	45.8			1.9	45.8
Total	$ 25.8	$ 829.2	$ 41.7	$ 298.2	$ 67.5	$ 1,127.4

The Company employs a systematic methodology to evaluate declines in fair value below amortized cost for fixed maturity securities or cost for equity securities. In determining OTTI of fixed maturity and equity securities, 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, dividend payments and asset quality; any specific events which may influence the operations of the issuer; the general outlook for market conditions in the industry or geographic region in which the issuer operates; and the length of time and the degree to which the fair value of an issuer s securities remains below the Company s cost. With respect to fixed maturity investments, the Company considers any factors that might raise doubt about the issuer s ability to pay all amounts due according to the contractual terms and whether the Company expects to recover the entire amortized cost basis of the security. With respect to equity securities, the Company considers its ability and intent to hold the investment for a period of time to allow for a recovery in value. The Company applies these factors to all securities.

D. Other-than-temporary impairments

For the three months ended June 30, 2011, total OTTI of fixed maturities were $0.5 million. Of this amount, $0.8 million was recognized in earnings, including $0.3 million that was transferred from unrealized losses in accumulated other comprehensive income. For the first six months of 2011, total OTTI of fixed maturities and equity securities were $1.7 million. Of this amount, $2.2 million was recognized in earnings, including $0.5 million that was transferred from unrealized losses in accumulated other comprehensive income.

For the three months ended June 30, 2010, total OTTI of fixed maturities and equity securities was $2.8 million. Of this amount, $3.4 million was recognized in earnings, including $0.6 million that was transferred from unrealized losses in accumulated other comprehensive income. For the first six months of 2010, total OTTI of fixed maturities and equity securities was $3.3 million. Of this amount, $6.1 million was recognized in earnings, including $2.8 million that was transferred from unrealized losses in accumulated other comprehensive income.

The methodology and significant inputs used to measure the amount of credit losses on fixed maturities in 2011 and 2010 were as follows:

Asset-backed securities, including commercial and residential mortgage-backed securities - the Company utilized cash flow estimates based on bond specific facts and circumstances that include collateral characteristics, expectations of delinquency and default rates, loss severity, prepayment speeds and structural support, including subordination and guarantees.

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.

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The following table provides rollforwards of the cumulative amounts related to the Company s credit loss portion of the OTTI losses on fixed maturity securities for which the non-credit portion of the loss is included in other comprehensive income.

	Quarter Ended June 30		Six Months Ended June 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Credit losses, beginning of period	**$ 16.3**	$ 21.4	**$ 16.7**	$ 20.0
Credit losses for which an OTTI was not previously recognized		0.1		0.3
Additional credit losses on securities for which an OTTI was previously recognized		0.6	**0.2**	2.2
Reductions for securities sold or matured during the period	**(0.7)**	(2.6)	**(1.3)**	(3.0)
Reduction for securities reclassified as intend to sell	**(0.8)**		**(0.8)**	
Credit losses, end of period	**$ 14.8**	$ 19.5	**$ 14.8**	$ 19.5

E. Proceeds from sales

Proceeds from sales of available-for-sale securities and the gross realized gains and losses on those sales were as follows:

	Quarter Ended June 30,					
	2011			**2010**		
(In millions)	**Proceeds from Sales**	**Gross Gains**	**Gross Losses**	**Proceeds from Sales**	**Gross Gains**	**Gross Losses**
Fixed maturities	**$ 297.3**	**$ 11.7**	**$ 0.2**	$ 80.9	$ 3.5	$ 1.3
Equity securities	**1.8**	**0.4**		0.7		

	Six Months Ended June 30,					
	2011			**2010**		
(In millions)	**Proceeds from Sales**	**Gross Gains**	**Gross Losses**	**Proceeds from Sales**	**Gross Gains**	**Gross Losses**
Fixed maturities	**$ 403.8**	**$ 15.9**	**$ 1.0**	$ 176.1	$ 9.5	$ 1.3
Equity securities	**1.8**	**0.4**		25.8	6.2	

8. Fair Value

The Company follows the guidance in ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), as it relates to the fair value of its financial assets and liabilities. ASC 820 provides for a standard definition of fair value to be used in new and existing pronouncements. This guidance requires disclosure of fair value information about certain financial instruments (insurance contracts, real estate, goodwill and taxes are excluded) for which it is practicable to estimate such values, whether or not these instruments are included in the balance sheet at fair value. The 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.

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 and also provides a hierarchy for determining fair value, which emphasizes the use of observable market data whenever available. The three broad levels defined by the hierarchy are as follows, with the highest priority given to Level 1 as these are the most reliable, and the lowest priority given to Level 3.

Level 1 Quoted prices in active markets for identical assets.

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

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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:

Cash and Cash Equivalents

The carrying amount approximates fair value.

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. Non-binding broker quotes are also included in Level 3.

The Company utilizes a third party pricing service 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 service prepares estimates of fair value for those securities using pricing applications based on a market approach. Inputs into the fair value pricing applications which are 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 of the security, such as maturity date, coupon, mandatory principal payment dates, frequency of interest and principal payments and optional principal redemption features. Inputs into the fair value applications that are unique by asset class include, but are not limited to:

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: industry economic sensitivity; company financial policies; quality of management; regulatory environment; competitive position; indenture 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; U.S. government support programs; tax policies; and delinquency/default trends; and, in the case of non-agency collateralized mortgage obligations, severity of loss upon default and length of time to recover proceeds following default.

Commercial mortgage-backed securities overall credit quality, including assessments of the level and variability 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, auto loan receivables, equipment lease receivables and real property lease receivables; geographic diversification; vintage year; historical collateral performance including delinquency, default and casualty trends; economic conditions influencing use rates and resale values; and contract structural support features.

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

The Company holds privately placed fixed maturity securities and certain other fixed maturity securities that do not have an active market and for which the pricing service cannot provide fair values. The Company determines fair values for these securities using either matrix pricing utilizing the market approach or broker quotes. The Company will use observable market data as inputs into the fair value applications, 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

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Company s matrix model accounts for estimates of additional spread required by market participants for factors such as issue size, structural complexity, high bond coupon, long maturity term 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 includes publicly traded securities 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 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. Generally, all prices provided by the pricing service, except quoted market prices, are reported as Level 2.

Mortgage Loans

Fair values are estimated by discounting the future contractual cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings.

Derivative Instruments

The Company s derivatives are traded in the over-the-counter (OTC) derivative market and are classified as Level 2 in the fair value hierarchy. The Company s counterparty in the derivative agreements is a highly rated major financial institution. OTC derivatives classified as Level 2 are valued using discounted cash flow models widely accepted in the financial services industry that use actively quoted or observable market input values from external market data providers, third party pricing vendors and/or recent trading activity. Key assumptions include the contractual terms of the contracts along with significant observable inputs including currency rates, interest rates and non-performance risk. The Company uses mid-market pricing in determining its best estimate of fair value.

Legal Indemnities

Fair values are estimated using probability-weighted discounted cash flow analyses.

Debt

If available, the fair value of debt is estimated based on quoted market prices. If a quoted market price is not available, fair values are estimated using discounted cash flows that are based on current interest rates and yield curves for debt issuances with maturities and credit risks consistent with the debt being valued.

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

	June 30, 2011		**December 31, 2010**	
(In millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets				
Cash and cash equivalents	**$ 721.6**	**$ 721.6**	$ 290.4	$ 290.4
Fixed maturities	**4,697.9**	**4,697.9**	4,797.9	4,797.9
Equity securities	**164.2**	**164.2**	128.6	128.6
Mortgage loans	**5.1**	**5.4**	5.5	5.8
Total financial assets	$ 5,588.8	$ 5,589.1	$ 5,222.4	$ 5,222.7
Financial Liabilities				

Derivative instruments	**$ 4.7**	**$ 4.7**	$	$
Legal indemnities	**5.6**	**5.6**	5.4	5.4
Debt	**857.9**	**872.7**	605.9	603.9
Total financial liabilities	**$ 868.2**	**$ 883.0**	$ 611.3	$ 609.3

The Company performs a review of the fair value hierarchy classifications and of prices received from its third party pricing service on a quarterly basis. The Company reviews the pricing services policy describing its processes, practices and inputs, including various financial models used to value securities. Also, the Company reviews the portfolio pricing. Securities with changes in prices that exceed a defined threshold are verified to independent sources. If upon review, the Company is not satisfied with the validity of a given price, a pricing challenge would be submitted to the pricing service along with supporting documentation for its review. The Company does not adjust quotes or prices obtained from the pricing service unless the pricing service agrees with the Company s challenge. During 2011 and 2010, the Company did not adjust any prices received from brokers or its pricing service.

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Changes in the observability of valuation inputs may result in a reclassification of certain financial assets or liabilities within the fair value hierarchy. Reclassifications between levels of the fair value hierarchy are reported as of the beginning of the period in which the reclassification occurs. As previously discussed, the Company utilizes a third party pricing service for the valuation of the majority of its fixed maturities and equity securities. The pricing service has indicated that it will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If the 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 Company currently holds fixed maturity securities, equity securities and a derivative instrument for which fair value is determined on a recurring basis. The following tables provide, for each hierarchy level, the Company s assets and liabilities that were measured at fair value at June 30, 2011 and December 31, 2010. Equity securities exclude FHLBB common stock of $8.7 million at June 30, 2011 and $8.6 million at December 31, 2010, which is carried at cost.

	June 30, 2011			
(In millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed maturities:				
U.S. Treasury and government agencies	**$ 214.4**	**$ 94.6**	**$ 119.8**	**$**
Municipal	**969.1**		**953.0**	**16.1**
Corporate	**2,417.1**		**2,380.3**	**36.8**
Residential mortgage-backed, U.S. agency backed	**598.6**		**598.6**	
Residential mortgage-backed, non-agency	**101.0**		**100.5**	**0.5**
Commercial mortgage-backed	**354.1**		**349.0**	**5.1**
Asset-backed	**43.6**		**30.1**	**13.5**
Total fixed maturities	**4,697.9**	**94.6**	**4,531.3**	**72.0**
Equity securities	**155.5**	**127.7**	**24.9**	**2.9**
Total investment assets at fair value	**$ 4,853.4**	**$ 222.3**	**$ 4,556.2**	**$ 74.9**
Liabilities:				
Derivative instruments	**$ 4.7**	**$**	**$ 4.7**	**$**

	December 31, 2010			
	Total	**Level 1**	**Level 2**	**Level 3**
Fixed maturities:				
U.S. Treasury and government agencies	$ 261.2	$ 124.0	$ 137.2	$
Municipal	954.7		938.1	16.6
Corporate	2,420.4		2,392.2	28.2
Residential mortgage-backed, U.S. agency backed	600.4		600.4	
Residential mortgage-backed, non-agency	133.7		132.9	0.8
Commercial mortgage-backed	366.6		361.1	5.5
Asset-backed	60.9		47.4	13.5
Total fixed maturities	4,797.9	124.0	4,609.3	64.6
Equity securities	120.0	106.6	10.5	2.9
Total investment assets at fair value	$ 4,917.9	$ 230.6	$ 4,619.8	$ 67.5

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

	Fixed Maturities							
(In millions)	Municipal	Corporate	Residential mortgage-backed, non- agency	Commercial mortgage-backed	Asset-backed	Total	Equities	Total Assets
Quarter Ended June 30, 2011								
Balance April 1, 2011	$ 15.9	$ 34.3	$ 0.6	$ 5.3	$ 13.4	$ 69.5	$ 2.9	$ 72.4
Transfers out of Level 3		(6.5)				(6.5)		(6.5)
Total gains:								
Included in other comprehensive income	0.5	0.2			0.3	1.0		1.0
Purchases and sales:								
Purchases		8.9				8.9		8.9
Sales	(0.3)	(0.1)	(0.1)	(0.2)	(0.2)	(0.9)		(0.9)
Balance June 30, 2011	$ 16.1	$ 36.8	$ 0.5	$ 5.1	$ 13.5	$ 72.0	$ 2.9	$ 74.9
Quarter Ended June 30, 2010								
Balance April 1, 2010	$ 15.2	$ 35.8	$ 1.4	$ 5.9	$ 17.6	$ 75.9	$ 2.8	$ 78.7
Transfers out of Level 3					(2.0)	(2.0)		(2.0)
Total gains:								
Included in other comprehensive income	0.1	0.7		0.1	0.4	1.3		1.3
Purchases and sales:								
Purchases								
Sales	(0.4)	(5.3)	(0.3)	(0.1)	(0.3)	(6.4)		(6.4)
Balance June 30, 2010	$ 14.9	$ 31.2	$ 1.1	$ 5.9	$ 15.7	$ 68.8	$ 2.8	$ 71.6
Six Months Ended June 30, 2011								
Balance January 1, 2011	$ 16.6	$ 28.2	$ 0.8	$ 5.5	$ 13.5	$ 64.6	$ 2.9	$ 67.5
Transfers into Level 3		3.7				3.7		3.7
Transfers out of Level 3		(6.5)				(6.5)		(6.5)
Total gains (losses):								
Included in earnings							(0.5)	(0.5)
Included in other comprehensive income	0.1	0.3			0.3	0.7	0.5	1.2
Purchases and sales:								
Purchases		11.8				11.8		11.8
Sales	(0.6)	(0.7)	(0.3)	(0.4)	(0.3)	(2.3)		(2.3)
Balance June 30, 2011	$ 16.1	$ 36.8	$ 0.5	$ 5.1	$ 13.5	$ 72.0	$ 2.9	$ 74.9
Six Months Ended June 30, 2010								
Balance January 1, 2010	$ 15.5	$ 28.9	$	$ 6.2	$ 9.2	$ 59.8	$ 2.8	$ 62.6
Transfers into Level 3		6.6			6.9	13.5		13.5
Transfer out of Level 3					(2.0)	(2.0)		(2.0)
Total gains (losses):								
Included in earnings		0.1				0.1	(0.3)	(0.2)
Included in other comprehensive income	0.2	1.0			0.2	1.4	0.3	1.7
Purchases and sales:								
Purchases		0.3	1.4		2.0	3.7		3.7
Sales	(0.8)	(5.7)	(0.3)	(0.3)	(0.6)	(7.7)		(7.7)
Balance June 30, 2010	$ 14.9	$ 31.2	$ 1.1	$ 5.9	$ 15.7	$ 68.8	$ 2.8	$ 71.6

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During the six months ended June 30, 2011 and 2010, the Company transferred fixed maturities between Level 2 and Level 3 primarily as a result of assessing the significance of unobservable inputs on the fair value measurement. There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2011 or 2010.

For the quarters ended June 30, 2011 or 2010, there was no impact on income relating to Level 3 securities. The following table summarizes gains and losses due to changes in fair value that are recorded in net income for Level 3 assets for the six months ended June 30, 2011 and 2010.

(In millions)	2011 Other-than-temporary impairments	Other-than-temporary impairments	2010 Net realized investment gains	Total
Level 3 Assets:				
Fixed maturities:				
Corporate	$	$	$ 0.1	$ 0.1
Equity securities	**(0.5)**	(0.3)		(0.3)
Total assets	**$ (0.5)**	$ (0.3)	$ 0.1	$ (0.2)

There were no Level 3 liabilities held by the Company for the six months ended June 30, 2011 and 2010.

9. Other Comprehensive Income

The following table provides a reconciliation of gross unrealized investment gains (losses) to the net balance shown in the Consolidated Statements of Comprehensive Income:

(In millions)	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Unrealized appreciation on available-for-sale securities:				
Unrealized gains arising during period, net of income tax (expense) benefit of $(0.1) and $(11.0) for the quarter ended June 30, 2011 and 2010 and $5.1 and $(31.7) for the six months ended June 30, 2011 and 2010	**$ 52.7**	$ 57.2	**$ 64.3**	$ 103.3
Less: reclassification adjustment for gains included in net income, net of income tax benefit (expense) of $2.2 and $0.2 for the quarter ended June 30, 2011 and 2010 and $4.3 and $(0.2) for the six months ended June 30, 2011 and 2010	**15.6**	0.4	**20.6**	9.1
Total available-for-sale securities	**37.1**	56.8	**43.7**	94.2
Unrealized depreciation on derivative instruments:				
Unrealized losses arising during period, net of income tax benefit of $0.7 for the quarter and six months ended June 30, 2011	**(1.2)**		**(1.2)**	
Other comprehensive income	**$ 35.9**	$ 56.8	**$ 42.5**	$ 94.2

10. Segment Information

The Company s primary business operations include insurance products and services provided through three property and casualty operating segments. These segments are Commercial Lines, Personal Lines, and Other Property and Casualty. Commercial Lines includes commercial multiple peril, commercial automobile, workers compensation, and other commercial coverages, such as specialty program business, inland marine, bond, professional liability and management liability. Personal Lines includes personal automobile, homeowners and other personal coverages. The Other Property and Casualty segment consists of: Opus Investment Management, Inc., which markets investment management services to institutions, pension funds and other organizations; earnings on holding company assets; as well as voluntary pools business which is

in run-off. The segment financial information is presented consistent with the way results are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company s consolidated net (loss) income includes the results of its three operating segments (segment (loss) income), which we evaluate on a pre-tax basis, and our interest expense on debt. Segment (loss) income excludes certain items which are included in net (loss) income, such as federal income taxes and net realized investment gains and losses, because fluctuations in these gains and losses are determined by interest rates, financial markets and timing of sales. Also, segment (loss) income excludes net gains and losses on

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disposals of businesses, discontinued operations, net gains and losses on derivative transactions, costs to acquire businesses, restructuring costs, extraordinary items, the cumulative effect of accounting changes and certain other items. Although the items excluded from segment (loss) income may be significant components in understanding and assessing the Company s financial performance, management believes that the presentation of segment income 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, segment (loss) income should not be construed as a substitute for net (loss) income determined in accordance with generally accepted accounting principles.

Summarized below is financial information with respect to business segments:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Segment revenues:				
Commercial Lines	**$ 447.9**	$ 365.9	**$ 887.2**	$ 702.1
Personal Lines	**388.2**	397.9	**774.9**	793.2
Other Property and Casualty	**5.6**	5.5	**11.4**	10.8
Total	**841.7**	769.3	**1,673.5**	1,506.1
Intersegment revenues	**(1.2)**	(1.2)	**(2.5)**	(2.3)
Total segment revenues	**840.5**	768.1	**1,671.0**	1,503.8
Net realized investment gains	**13.4**	0.2	**16.7**	11.1
Total revenues	**$ 853.9**	$ 768.3	**$ 1,687.7**	$ 1,514.9
Segment (loss) income before federal income taxes:				
Commercial Lines:				
GAAP underwriting loss	**$ (59.5)**	$ (16.0)	**$ (75.3)**	$ (24.8)
Net investment income	**34.0**	32.3	**67.6**	64.3
Other income	**0.8**	0.6	**1.4**	0.2
Commercial Lines segment (loss) income	**(24.7)**	16.9	**(6.3)**	39.7
Personal Lines:				
GAAP underwriting loss	**(47.1)**	(30.6)	**(40.9)**	(23.9)
Net investment income	**23.1**	25.6	**45.8**	51.2
Other income	**1.1**	1.5	**2.3**	3.7
Personal Lines segment (loss) income	**(22.9)**	(3.5)	**7.2**	31.0
Other Property and Casualty:				
GAAP underwriting income			**0.1**	0.3
Net investment income	**3.9**	3.9	**8.0**	7.4
Other net expenses	**(3.1)**	(2.7)	**(6.0)**	(6.1)
Other Property and Casualty segment income	**0.8**	1.2	**2.1**	1.6
Total	**(46.8)**	14.6	**3.0**	72.3
Interest expense on debt	**(10.8)**	(11.7)	**(21.2)**	(21.0)
Segment (loss) income before federal income taxes	**(57.6)**	2.9	**(18.2)**	51.3
Adjustments to segment income:				
Net realized investment gains	**13.4**	0.2	**16.7**	11.1
Costs related to acquired businesses	**(11.1)**		**(13.8)**	
Loss on derivative instruments	**(4.7)**		**(4.7)**	
Gain (loss) from retirement of debt	**0.3**		**(2.2)**	

(Loss) income before federal income taxes	**$ (59.7)**	$ 3.1	**$ (22.2)**	$ 62.4

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

(In millions)	**June 30, 2011**	**December 31, 2010**
Property and Casualty	**$ 8,852.9**	$ 8,436.3
Discontinued operations	**128.4**	133.6
Total	**$ 8,981.3**	$ 8,569.9

The Company does not allocate assets between the Commercial Lines, Personal Lines and Other Property and Casualty segments.

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11. Stock-based Compensation

Compensation cost and the related tax benefits were as follows:

(In millions)	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Stock-based compensation expense	**$ 2.6**	$ 2.7	**$ 6.0**	$ 5.5
Tax benefit	**(0.9)**	(0.9)	**(2.1)**	(1.9)
Stock-based compensation expense, net of taxes	**$ 1.7**	$ 1.8	**$ 3.9**	$ 3.6

Stock Options

Information on the Company s stock option plan activity is summarized as follows:

	Six Months Ended June 30,			
	2011		2010	
(In whole shares and dollars)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	**2,843,909**	**$ 39.22**	3,131,142	$ 39.16
Granted	**297,000**	**46.47**	389,750	42.45
Exercised	**(118,014)**	**33.13**	(83,420)	34.98
Forfeited or cancelled	**(18,250)**	**37.39**	(88,930)	44.10
Expired	**(256,250)**	**57.00**	(125,400)	44.91
Outstanding, end of period	**2,748,395**	**38.62**	3,223,142	39.31

Restricted Stock Units

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

	Six Months Ended June 30,			
	2011		2010	
(In whole shares and dollars)	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Time-based restricted stock units:				
Outstanding, beginning of period	**838,129**	**$ 40.93**	700,904	$ 41.12
Granted	**111,496**	**46.10**	341,104	42.55
Vested	**(187,123)**	**45.14**	(109,057)	48.28
Forfeited	**(21,944)**	**41.54**	(56,894)	40.46
Outstanding, end of period	**740,558**	**40.63**	876,057	40.83
Performance-based restricted stock units:				
Outstanding, beginning of period	**101,680**	**$ 39.62**	145,635	$ 42.79

Granted	**42,500**	**46.47**	41,250	42.15
Vested	**(25,055)**	**45.21**	(31,558)	48.46
Forfeited			(15,352)	47.64
Outstanding, end of period	**119,125**	**40.89**	139,975	40.79

Time-based restricted stock units granted in the first six months of 2011 were significantly lower compared to the first six months of 2010 due to a shift in awards granted in 2011 from time-based restricted stock units to time-based cash awards.

Performance based restricted stock units are based upon the achievement of the performance metric at 100%. These units have the potential to range from 0% to 150% of the shares disclosed, which varies based on grant year and individual participation level. Increases to the 100% target level are reflected as granted in the period in which performance-based stock unit goals are achieved. Decreases to the 100% target level are reflected as forfeited. In the first six months of 2010, performance-based stock units of 11,472 were included as forfeited due to completion levels less than 100% for units granted in 2007.

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12. 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:

(In millions, except per share data)	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Basic shares used in the calculation of earnings per share	**45.4**	44.9	**45.4**	46.2
Dilutive effect of securities:				
Employee stock options		0.3		0.3
Non-vested stock grants		0.3		0.3
Diluted shares used in the calculation of earnings per share	**45.4**	45.5	**45.4**	46.8
Per share effect of dilutive securities on (loss) income from continuing operations	**$**	$	**$**	$ (0.01)
Per share effect of dilutive securities on net (loss) income	**$**	$	**$**	$ (0.02)

Diluted earnings per share for the quarter ended June 30, 2011 and 2010 excludes 1.9 million and 1.4 million, respectively, of common shares issuable under the Company s stock compensation plans, because their effect would be antidilutive. Diluted earnings per share for the six months ended June 30, 2011 and 2010 excludes 2.2 million and 1.6 million, respectively, of common shares issuable under the Company s stock compensation plans, because their effect would be antidilutive.

During the first six months of 2011, the Company paid two quarterly dividends of 27.5 cents ($0.275) per share each to its shareholders totaling $25.0 million.

Since October 2007 and through June 2011, the Company s Board of Directors has authorized aggregate repurchases of the Company s common stock of up to $500 million. As of June 30, 2011, the Company has $157 million available for repurchases under these repurchase authorizations. The Company may repurchase its common stock from time to time, in amounts and prices and at such times as deemed appropriate, subject to market conditions and other considerations. The Company s 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. On March 30, 2010, the Company entered into an accelerated share repurchase agreement for the immediate repurchase of 2.3 million shares of the Company s common stock at a cost of $105.0 million. During the first six months of 2011 the Company did not repurchase any additional shares of common stock.

13. Commitments and Contingencies

Legal Proceedings

Durand Litigation

On March 12, 2007, a putative class action suit captioned Jennifer A. Durand v. The Hanover Insurance Group, Inc., The Allmerica Financial Cash Balance Pension Plan was filed in the United States District Court for the Western District of Kentucky. The named plaintiff, a former employee who received a lump sum distribution from the Company s Cash Balance Plan (the Plan) at or about the time of her termination, claims that she and others similarly situated did not receive the appropriate lump sum distribution because in computing the lump sum, the Company understated the accrued benefit in the calculation.

The Plaintiff filed an Amended Complaint adding two new named plaintiffs and additional claims on December 11, 2009. In response, the Company filed a Motion to Dismiss on January 30, 2010. In addition to the pending claim challenging the calculation of lump sum distributions, the Amended Complaint includes: (a) a claim that the Plan failed to calculate participants account balances and lump sum payments properly because interest credits were based solely upon the performance of each participant s selection from among various hypothetical investment options (as the Plan provided) rather than crediting the greater of that performance or the 30 year Treasury rate; (b) a claim that the 2004 Plan amendment, which changed interest crediting for all participants from the performance of participant s investment selections to the 30 year

Treasury rate, reduced benefits in violation of the Employee Retirement Income Security Act of 1974 (ERISA) for participants who had account balances as of the amendment date by not continuing to provide them performance-based interest crediting on those balances; and (c) claims for breach of fiduciary duty and ERISA notice requirements arising from the various interest crediting and lump sum distribution matters of which Plaintiffs complain. The District Court granted the Company s Motion to Dismiss the additional claims on statute of limitations grounds by a Memorandum Opinion dated March 31, 2011, leaving the claims substantially as set forth in the original March 12, 2007 complaint. Plaintiffs have filed a Motion for Reconsideration of the District Court s decision to dismiss the additional claims.

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At this time, the Company is unable to provide a reasonable estimate of the potential range of ultimate liability if the outcome of the suit is unfavorable. This matter is still in the early stages of litigation. The extent to which any of the Plaintiffs multiple theories of liability, some of which are overlapping and others of which are quite complex and novel, are accepted and upheld on appeal will significantly affect the Plan s or the Company s potential liability. It is not clear whether a class will be certified or, if certified, how many former or current Plan participants, if any, will be included. The statute of limitations applicable to the alleged class has not yet been finally determined and the extent of potential liability, if any, will depend on this final determination. In addition, assuming for these purposes that the Plaintiffs prevail with respect to claims that benefits accrued or payable under the Plan were understated, then there are numerous possible theories and other variables upon which any revised calculation of benefits as requested under Plaintiffs claims could be based. It is likely that any adverse judgment in this case would be against the Plan. Such a judgment would be expected to create a liability for the Plan, with resulting effects on the Plan s assets available to pay benefits. The Company s future required funding of the Plan could also be impacted by such a liability.

Hurricane Katrina Litigation

In August 2007, the State of Louisiana filed a putative class action in the Civil District Court for the Parish of Orleans, State of Louisiana, entitled State of Louisiana, individually and on behalf of State of Louisiana, Division of Administration, Office of Community Development ex rel The Honorable Charles C. Foti, Jr., The Attorney General For the State of Louisiana, individually and as a class action on behalf of all recipients of funds as well as all eligible and/or future recipients of funds through The Road Home Program v. AAA Insurance, et al., No. 07-8970. The complaint named as defendants over 200 foreign and domestic insurance carriers, including the Company, and asserts a right to benefit payments from insurers on behalf of current and former Louisiana citizens who have applied for and received or will receive funds through Louisiana s Road Home program. The case was thereafter removed to the Federal District Court for the Eastern District of Louisiana.

On March 5, 2009, the court issued an Order granting in part and denying in part a Motion to Dismiss filed by Defendants. The court dismissed all claims for bad faith and breach of fiduciary duty and all claims for flood damages under policies with flood exclusions or asserted under Louisiana s Valued Policy Law, but rejected the insurers arguments that the purported assignments from individual claimants to the state were barred by anti-assignment provisions in the insurers policies. On April 30, 2009, Defendants filed a Petition for Permission to Appeal to the United States Court of Appeals for the Fifth Circuit (the Fifth Circuit), which was granted. On July 28, 2010, the Fifth Circuit certified the anti-assignment issue to the Louisiana Supreme Court. On May 10, 2011, the Supreme Court of Louisiana issued a decision holding that the anti-assignment provisions were not violative of public policy. The court also indicated, however, that such provisions would only serve to bar post-loss assignments if they clearly and unambiguously expressed that they apply to post-loss assignments. On June 28, 2011, the Fifth Circuit remanded the case to the Federal District Court for further proceedings consistent with the Louisiana s Supreme Court s opinion.

At this time, the Company is unable to provide a reasonable estimate of the potential range of ultimate liability. The Company is unable to determine how many policyholders have assigned claims under the Road Home program and, in any case, has no basis to estimate the amount of any differences between what the Company paid with respect to any such claim and the amount that the State of Louisiana may claim should properly have been paid under the policy.

Other Matters

The Company has been named a defendant in various other 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 or investigation, and its ultimate liability, if any, from such action or regulatory proceedings, is difficult to predict at this time. The ultimate resolutions of such proceedings will not have a material effect on its financial position, although they could have a material effect on the results of operations for a particular quarter or annual period.

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14. Subsequent Events

There were no subsequent events requiring adjustment to the financial statements, and, other than the acquisition of Chaucer described in Note 3 Acquisitions , no additional disclosures required in the notes to the interim consolidated financial statements.

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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 subsidiaries (THG) and 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 the Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011.

Our results of operations include the accounts of The Hanover Insurance Company (Hanover Insurance) and Citizens Insurance Company of America (Citizens), our principal property and casualty companies; and certain other insurance and non-insurance subsidiaries.

Executive Overview

Our business operations include insurance products and services provided through three operating segments: Commercial Lines, Personal Lines and Other Property and Casualty.

During the first six months of 2011, there was an unprecedented level of weather related events that affected the property and casualty industry. We incurred pre-tax catastrophe losses of $206.4 million during the first half of 2011, including $156.7 million in the second quarter. During the first half of 2010, pre-tax catastrophe losses were $119.4 million, with $85.0 million in the second quarter. These losses were principally the result of winter storms in the first quarter of 2011 and tornado, hail and windstorm activity in both the Midwest and the Northeast during the second quarter.

During the first six months of 2011, our pre-tax segment loss of $18.2 million reflects the aforementioned catastrophe losses. In addition, a decrease in favorable development on prior years loss and loss adjustment expense (LAE) reserves contributed to the overall decline in segment results from the prior year. Segment income, excluding catastrophes and development, was $165.6 million in the first six months of 2011, compared to $130.2 million in the same period of 2010, reflecting an improvement in current accident year results. This improvement was driven by a higher level of earned premium and the resulting positive effect on our expense ratios, an improved mix of business and lower loss ratios in Personal Lines.

Commercial Lines

We believe our small commercial capabilities, distinctiveness in the middle market, and continued development of specialty business provides us with a diversified portfolio of products and enables our delivery of significant value to agents and policyholders. Growth in our specialty lines continues to be a significant part of our strategy. The expansion of product offerings in our specialized businesses has been supported by several acquisitions over the past several years and our recent acquisition of Chaucer Holdings PLC (Chaucer). During the first half of 2011, our Commercial Lines segment net written premium grew by approximately 6%, driven by our specialty businesses. Our net earned premium increased by more than 25% during the first half of 2011, as a result of our renewal rights from the OneBeacon transaction in 2010.

We believe these efforts have and will continue to drive improvement in our overall mix of business and ultimately our underwriting profitability. Our losses and loss adjustment expenses were higher in the first half of 2011 as compared to the prior year, primarily due to the high level of catastrophe losses and, to a lesser extent, non-catastrophe weather-related losses. Notwithstanding the increase in losses and LAE, current accident year income increased, primarily due to the growth in earned premium and an improved mix of business.

In the Commercial Lines market, continued price competition, while moderating slightly in certain lines of business, requires us to be highly disciplined in our underwriting process to ensure that we write business only at acceptable margins. In certain lines of business where a weak economy may be a particularly important factor, such as surety and workers compensation, we endeavor to adjust pricing and/or take a more conservative approach to risk selection in order to more appropriately reflect the higher risk of loss. Additionally, we are evaluating price adequacy in our property lines due to the catastrophe and non-catastrophe weather-related losses that we experienced in the first six months of 2011.

Personal Lines

In our Personal Lines business, we maintain our focus on partnering with high quality, value-added agencies that deliver consultative selling and stress the importance of account rounding (the conversion of single policy customers to accounts with multiple policies and/or additional coverages). Account business represents 67% of total policies in force compared to 64% in the same period in 2010. We are focused on making investments that help maintain profitability, build a distinctive position in the market, and provide us with profitable growth opportunities. We

continue to diversify our premium outside of our core states by growing in targeted states. In the first six months of 2011, our targeted states increased to 28% of Personal Lines net written premium compared to 26% in the same period in 2010.

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Written premiums in Personal Lines in the first six months of 2011 were comparable to the same period in 2010. Current year underwriting results, excluding catastrophes, were slightly improved in the first half of 2011, as compared to the same period in 2010. Underlying current accident year loss results show an improvement in the personal automobile line that were somewhat offset by the homeowners line due to a higher level of non-catastrophe weather related losses. Similar to our Commercial Lines, we are evaluating price adequacy in our property lines due to the recent catastrophe and non-catastrophe weather-related losses that we experienced.

Acquisition of Chaucer Holdings PLC

On July 1, 2011, we acquired Chaucer, a United Kingdom (UK) insurance business. Chaucer is a leading specialist managing underwriter with the Society of Lloyd s (Lloyd s). Chaucer underwrites business in several major lines of business, including global marine, energy, non-marine and aviation, as well as UK motor business. Chaucer is headquartered in London, but has regional operations in Whitstable, England and international operations in Houston, Singapore, Buenos Aires and Copenhagen.

In 2010, Chaucer, which has approximately 700 employees, reported gross written premiums of $1.33 billion, net earned premium of $925 million and total assets of $3.7 billion. Dollar amounts referenced above are converted from UK Pound Sterling (GBP) to US Dollars at the December 31, 2010 exchange rate of 1.57.

This transaction is expected to significantly advance our specialty lines strategy and result in broader product and underwriting capabilities, as well as greater geographic and product diversification. In addition, we believe that our acquisition of Chaucer will allow us, over time, to enhance our distribution strategy of providing distinctive insurance products to agents and brokers for our customers by enabling us to offer a broader and more specialized set of products. The acquisition adds a presence in the Lloyd s market, which includes access to international licenses, a sophisticated excess and surplus insurance business and the ability to syndicate certain risks. We anticipate that Chaucer s specialty expertise in energy, aviation and political and trade risks will be of particular interest to certain agents and brokers.

The total cost of the Chaucer transaction was $490.5 million, including $11.0 million of investment advisory, legal, accounting and other expenses, and net of the effect of a hedging transaction that we entered into in connection with the acquisition.

Further information on the acquisition of Chaucer is set forth under Note 3 Acquisitions in this Form 10-Q and in our Form 8-K filed with the SEC on April 21, 2011.

Description of Operating Segments

Our primary business operations include insurance products and services in three property and casualty operating segments. These segments are Commercial Lines, Personal Lines and Other Property and Casualty. Commercial Lines includes commercial multiple peril, commercial automobile, workers compensation and other commercial coverages, such as specialty program business, inland marine, bonds, professional liability and management liability, while Personal Lines includes personal automobile, homeowners and other personal coverages. The Other Property and Casualty segment consists of Opus Investment Management, Inc., which markets investment management services to institutions, pension funds and other organizations; earnings on holding company assets and; a voluntary pools business which is in run-off. We present the separate financial information of each segment consistent with the manner in which our chief operating decision maker evaluates results in deciding how to allocate resources and in assessing performance. Since the acquisition of Chaucer was not concluded until after the end of the second quarter, its financial results and financial position are not included in our reported results for the periods covered by this report.

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Results of Operations Net Income

Our consolidated net income includes the results of our three operating segments (segment income), which we evaluate on a pre-tax basis, and our interest expense on debt. Segment income excludes certain items which we believe are not indicative of our core operations. The income of our segments excludes items such as federal income taxes and net realized investment gains and losses, because fluctuations in these gains and losses are determined by interest rates, financial markets and the timing of sales. Also, segment income excludes net gains and losses on disposals of businesses, discontinued operations, net gains and losses on derivative transactions, costs to acquire businesses, restructuring costs, extraordinary items, the cumulative effect of accounting changes and certain other items. Although the items excluded from segment income may be significant components in understanding and assessing our financial performance, we believe segment income enhances an investor s understanding of our results of operations by highlighting net income attributable to the core operations of the business. However, segment income should not be construed as a substitute for net income determined in accordance with generally accepted accounting principles (GAAP).

Catastrophe losses are a significant component in understanding and assessing the financial performance of our business. However, catastrophic events make it difficult to assess the underlying trends in this business. Management believes that providing certain financial metrics and trends excluding the effects of catastrophes helps investors to understand the variability in periodic earnings and to evaluate the underlying performance of our operations.

Our consolidated net loss for the second quarter of 2011 was $31.8 million, compared to net income of $2.3 million for the same period in 2010. The $34.1 million decrease is primarily due to a $39.9 million decline in after-tax segment income, principally driven by an increase in catastrophe losses. Additionally, in the second quarter of 2011 we incurred $11.1 million in expense related to our recent acquisitions, primarily consisting of advisory, legal, and accounting costs associated with the acquisition of Chaucer. In addition, we recorded a $4.7 million loss as a result of a foreign exchange contract entered into in connection with the Chaucer acquisition. See Note 3 Acquisitions in this Form 10-Q for additional information. Partially offsetting these decreases were higher net realized investment gains of $13.2 million.

Our consolidated net loss for the first six months of 2011 was $2.5 million, compared to net income of $44.1 million for the same period in 2010. The $46.6 million decrease is primarily due to a $45.9 million decline in after-tax segment income, principally driven by an increase in catastrophe losses and, to a lesser extent, non-catastrophe weather-related activity. Additionally, in the first six months of 2011, advisory, legal, and accounting costs associated with the acquisition of Chaucer and other acquisition expenses totaled $13.8 million, and we recorded a $4.7 million loss for the first six months in connection with the aforementioned foreign exchange forward contract. Partially offsetting these decreases were higher net realized investment gains of $5.6 million.

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The following table reflects segment income as determined in accordance with GAAP and a reconciliation of total segment income to consolidated net income.

(In millions)	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Segment (loss) income before federal income taxes:				
Commercial Lines	**$ (24.7)**	$ 16.9	**$ (6.3)**	$ 39.7
Personal Lines	**(22.9)**	(3.5)	**7.2**	31.0
Other Property and Casualty	**0.8**	1.2	**2.1**	1.6
Total	**(46.8)**	14.6	**3.0**	72.3
Interest expense on debt	**(10.8)**	(11.7)	**(21.2)**	(21.0)
Total segment (loss) income before federal income taxes	**(57.6)**	2.9	**(18.2)**	51.3
Federal income tax benefit (expense) on segment income	**19.5**	(1.1)	**6.1**	(17.5)
Net realized investment gains	**13.4**	0.2	**16.7**	11.1
Gain (loss) from retirement of debt	**0.3**		**(2.2)**	
Costs related to acquired businesses	**(11.1)**		**(13.8)**	
Loss on derivative instruments	**(4.7)**		**(4.7)**	
Federal income tax benefit (expense) on non-segment income	**7.8**	0.2	**11.6**	(0.5)
(Loss) income from continuing operations	**(32.4)**	2.2	**(4.5)**	44.4
Gain (loss) from discontinued operations, net of taxes	**0.6**	0.1	**2.0**	(0.3)
Net (loss) income	**$ (31.8)**	$ 2.3	**$ (2.5)**	$ 44.1

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Segment Results

The following is our discussion and analysis of the results of operations by business segment. The segment results are presented before taxes and other items which management believes are not indicative of our core operations, including realized gains and losses.

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

(In millions)	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Segment revenues				
Net premiums written	**$ 815.4**	$ 802.0	**$ 1,565.3**	$ 1,527.2
Net premiums earned	**$ 770.5**	$ 697.8	**$ 1,532.2**	$ 1,364.3
Net investment income	**61.0**	61.8	**121.4**	122.9
Fees and other income	**10.2**	9.7	**19.9**	18.9
Total segment revenues	**841.7**	769.3	**1,673.5**	1,506.1
Losses and operating expenses				
Losses and LAE	**617.5**	498.4	**1,128.5**	930.0
Policy acquisition expenses	**181.3**	163.0	**362.1**	317.4
Other operating expenses	**89.7**	93.3	**179.9**	186.4
Total losses and operating expenses	**888.5**	754.7	**1,670.5**	1,433.8
Segment (loss) income before federal income taxes	**$ (46.8)**	$ 14.6	**$ 3.0**	$ 72.3

Quarter Ended June 30, 2011 Compared to Quarter Ended June 30, 2010

Segment losses were $46.8 million in the second quarter of 2011, compared to income of $14.6 million in the second quarter of 2010, a decrease in earnings of $61.4 million. Catastrophe related losses in the quarter were $156.7 million, compared to $85.0 million in the same period of 2010, an increase of $71.7 million. Excluding the impact of catastrophe related activity, earnings would have increased by $10.3 million. This increase was primarily due to more favorable current accident year results, partially offset by lower favorable development on prior years loss and LAE reserves, and to higher LAE. The favorable current accident year results are due to our growth in earned premium and resulting positive effect on our expense ratio, an improved mix of business, and lower loss ratios in Personal Lines. Favorable development on prior years loss and LAE reserves decreased $9.1 million in the quarter to $15.3 million, from $24.4 million in the same period in 2010.

Net premiums written grew by 1.7% in the second quarter of 2011 compared to the second quarter of 2010, and net premiums earned grew by 10.4%. In each case, the growth is entirely attributable to Commercial Lines. The more significant increase in net premiums earned is a result of the significant growth in net premiums written in 2010, which resulted from the OneBeacon renewal rights transaction, growth in our AIX program business, as well as growth in various niche and segmented businesses. We anticipate that quarter over quarter growth in net earned premium will continue to exceed the increase in written premium through the remainder of 2011, as we continue to recognize this prior year growth.

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Production and Underwriting Results

The following table summarizes GAAP net premiums written and GAAP loss, LAE, expense and combined ratios for the Commercial Lines and Personal Lines segments. GAAP loss, LAE, catastrophe loss and combined ratios shown below include prior year reserve development. These items are not meaningful for our Other Property and Casualty segment.

	Quarter Ended June 30,					
	2011			2010		
(Dollars in millions)	GAAP Net Premiums Written	GAAP Loss Ratios	Cata-strophe Loss Ratios	GAAP Net Premiums Written	GAAP Loss Ratios	Cata-strophe Loss Ratios
Commercial Lines:						
Commercial multiple peril	**$ 144.7**	**85.9**	**41.6**	$ 152.8	55.8	17.7
Commercial automobile	**64.7**	**51.0**	**1.1**	68.1	44.6	
Workers compensation	**44.2**	**53.9**		40.9	44.5	
Other commercial	**186.9**	**52.9**	**11.2**	163.3	50.9	4.7
Total Commercial Lines	**440.5**	**64.0**	**18.9**	425.1	51.0	7.8
Personal Lines:						
Personal automobile	**229.6**	**58.4**	**2.7**	237.2	60.4	2.8
Homeowners	**133.2**	**105.6**	**58.8**	128.2	88.5	43.2
Other personal	**11.8**	**55.7**	**14.2**	11.5	41.7	7.4
Total Personal Lines	**374.6**	**74.3**	**22.0**	376.9	69.0	16.1
Total	**$ 815.1**	**68.8**	**20.3**	$ 802.0	60.4	12.2

	2011			2010		
	GAAP LAE Ratio	GAAP Expense Ratio	GAAP Combined Ratio	GAAP LAE Ratio	GAAP Expense Ratio	GAAP Combined Ratio
Commercial Lines	**11.5**	**38.8**	**114.3**	11.1	42.6	104.7
Personal Lines	**11.1**	**26.8**	**112.2**	10.8	27.7	107.5
Total	**11.3**	**33.2**	**113.3**	11.0	34.7	106.1

The following table summarizes GAAP underwriting results for the Commercial Lines, Personal Lines and Other Property and Casualty segments and reconciles it to GAAP segment income.

	Quarter Ended June 30,							
	2011				2010			
	Commercial Lines	Personal Lines	Other Property and Casualty	Total	Commercial Lines	Personal Lines	Other Property and Casualty	Total
GAAP underwriting profit (loss), excluding prior year reserve development and catastrophes	**$ 8.3**	**$ 26.6**	**$ (0.1)**	**$ 34.8**	$ (1.9)	$ 16.1	$ (0.2)	$ 14.0
Prior year favorable loss and LAE reserve development	**9.3**	**5.9**	**0.1**	**15.3**	11.6	12.6	0.2	24.4

Pre-tax catastrophe effect	**(77.1)**	**(79.6)**		**(156.7)**	(25.7)	(59.3)		(85.0)
GAAP underwriting (loss) profit	**(59.5)**	**(47.1)**		**(106.6)**	(16.0)	(30.6)		(46.6)
Net investment income	**34.0**	**23.1**	**3.9**	**61.0**	32.3	25.6	3.9	61.8
Fees and other income	**5.4**	**3.2**	**1.6**	**10.2**	4.9	3.2	1.6	9.7
Other operating expenses	**(4.6)**	**(2.1)**	**(4.7)**	**(11.4)**	(4.3)	(1.7)	(4.3)	(10.3)
Segment (loss) income before federal income taxes	**$ (24.7)**	**$ (22.9)**	**$ 0.8**	**$ (46.8)**	$ 16.9	$ (3.5)	$ 1.2	$ 14.6

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Commercial Lines

Commercial Lines net premiums written increased $15.4 million, or 3.6%, to $440.5 million for the second quarter of 2011. This increase was primarily driven by growth in our specialty business, particularly in our AIX program business, which accounted for $15.3 million. Also benefiting the overall growth comparison in net premiums written were modest rate increases.

Commercial Lines underwriting loss in the second quarter of 2011 was $59.5 million, compared to $16.0 million in the prior year, an increase of $43.5 million. This was due to increased catastrophe losses and decreased favorable development on prior years loss and LAE reserves. Catastrophe losses increased $51.4 million in the second quarter of 2011, to $77.1 million, from $25.7 million in 2010, due primarily to significant tornado, hail and windstorm activity. Favorable development on prior years loss and LAE reserves decreased $2.3 million, to $9.3 million in the second quarter 2011, from $11.6 million for the second quarter of 2010.

Commercial Lines underwriting profit, excluding prior year loss and LAE reserve development and catastrophes, improved $10.2 million, to a profit of $8.3 million in the second quarter of 2011, compared to a loss of $1.9 million in the second quarter of 2010. This improvement resulted from growth in earned premium and the resulting positive effect on our expense ratio and from an improved mix of business, partially offset by large losses in our commercial multi-peril line. The higher level of earned premiums primarily resulted from our 2010 OneBeacon transaction and other growth initiatives.

We continue to experience price competition in certain lines of business in our Commercial Lines segment, particularly in our middle market accounts, although this trend is moderating slightly in certain lines of business, such as workers compensation. Our ability to increase Commercial Lines net premiums written while maintaining or improving underwriting results may be affected by continuing price competition and the current challenging economic environment.

Personal Lines

Personal Lines net premiums written decreased $2.3 million, or 0.6%, to $374.6 million for the second quarter of 2011. The most significant factors contributing to this decrease were actions we have taken to reduce our market concentration in Louisiana, and our continued focus on driving profit improvement in our core states through both rate increases and more selective portfolio management, resulting in lower new business activity. These decreases were partially offset by higher rates in both our personal automobile and homeowners lines and a net premiums written increase of 8.5% in our target growth states. Continued increases in premium are expected in these target growth states based on our strategy to diversify from our existing core states.

Net premiums written in the personal automobile line of business declined 3.2%, primarily as a result of fewer policies in force in Michigan, Massachusetts, New York and Florida, which we attribute to more selective portfolio management and increased rates in a competitive pricing environment. Net premiums written in the homeowners line of business increased 3.9%, resulting primarily from rate increases.

Personal Lines underwriting loss in the second quarter of 2011 was $47.1 million, compared to $30.6 million in the prior year, an increase of $16.5 million. This was due to increased catastrophe losses and decreased favorable development on prior years loss and LAE reserves. Catastrophe losses increased $20.3 million in the second quarter of 2011, to $79.6 million, from $59.3 million in 2010, due primarily to significant tornado, hail and windstorm activity. Favorable development on prior years loss and LAE reserves decreased $6.7 million, to $5.9 million in the second quarter 2011, from $12.6 million for the second quarter of 2010.

Personal Lines underwriting profit, excluding prior year loss and LAE reserve development and catastrophes, increased $10.5 million, to $26.6 million, in the second quarter of 2011, from $16.1 million in the second quarter of 2010. This increase was primarily due to more favorable ex-catastrophe current accident year loss results, as well as lower operating expenses. Current accident year loss results improved primarily due to better loss ratios in our personal automobile liability coverages, partially offset by non catastrophe weather related losses in our homeowners line.

Although we have been able to obtain rate increases in our Personal Lines markets, our ability to maintain and increase Personal Lines net written premium and to maintain and improve underwriting results has been and may continue to be affected by price competition and regulatory and legal developments. Our rate actions have adversely affected our ability to increase our policies in force and new business, particularly in our core states and in Florida. There is no assurance that we will be able to maintain our current level of production or maintain or increase rates in light of the highly competitive environment.

Other Property and Casualty

Other Property and Casualty segment income decreased $0.4 million, to $0.8 million for the second quarter of 2011, from $1.2 million in the same period of 2010. The decrease is primarily due to higher holding company expenses.

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Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Segment income was $3.0 million in the six months ended June 30, 2011, compared to $72.3 million in the six months ended June 30, 2010, a decrease of $69.3 million. Catastrophe related activity in the six months ended June 30, 2011 was $206.4 million, compared to $119.4 million in the same period of 2010, an increase of $87.0 million. Excluding the impact of catastrophe related activity, earnings would have increased by $17.7 million. This increase was primarily due to more favorable current accident year results, partially offset by lower favorable development on prior years loss and LAE reserves. The favorable current accident year results are due to our growth in earned premium and resulting positive effect on our expense ratio, an improved mix of business, and lower loss ratios in Personal Lines. Favorable development on prior years loss and LAE reserves decreased $17.7 million in the six months ended June 30, 2011 to $43.8 million, from $61.5 million in the same period in 2010.

Net premiums written grew by 2.5% in the first six months of 2011 compared to the first six months of 2010, and net premiums earned grew by 12.3%. In each case, the growth is entirely attributable to Commercial Lines. The more significant increase in net premiums earned is a result of the significant growth in net premiums written in 2010, which resulted from the OneBeacon renewal rights transaction, growth in our AIX program business, as well as growth in various niche and segmented businesses.

Production and Underwriting Results

The following table summarizes GAAP net premiums written and GAAP loss, LAE, expense and combined ratios for the Commercial Lines and Personal Lines segments. GAAP loss, LAE, catastrophe loss and combined ratios shown below include prior year reserve development. These items are not meaningful for our Other Property and Casualty segment.

	Six Months Ended June 30,					
	2011			2010		
(Dollars in millions)	GAAP Net Premiums Written	GAAP Loss Ratios	Cata-strophe Loss Ratios	GAAP Net Premiums Written	GAAP Loss Ratios	Cata-strophe Loss Ratios
Commercial Lines:						
Commercial multiple peril	**$ 281.9**	**75.0**	**28.5**	$ 288.2	57.5	16.0
Commercial automobile	**126.7**	**52.9**	**0.7**	131.1	47.8	0.5
Workers compensation	**90.0**	**54.4**		80.8	47.8	
Other commercial	**350.4**	**47.6**	**7.5**	300.3	48.0	4.1
Total Commercial Lines	**849.0**	**58.6**	**12.9**	800.4	51.1	7.0
Personal Lines:						
Personal automobile	**460.7**	**57.4**	**1.4**	478.3	60.3	1.6
Homeowners	**234.4**	**86.3**	**38.4**	227.4	74.0	28.1
Other personal	**20.9**	**44.1**	**8.5**	20.8	36.7	4.3
Total Personal Lines	**716.0**	**66.9**	**14.1**	726.5	64.1	10.2
Total	**$ 1,565.0**	**62.5**	**13.5**	$ 1,526.9	58.1	8.8

	2011			2010		
	GAAP LAE Ratio	GAAP Expense Ratio	GAAP Combined Ratio	GAAP LAE Ratio	GAAP Expense Ratio	GAAP Combined Ratio
Commercial Lines	**11.3**	**39.2**	**109.1**	9.6	43.0	103.7
Personal Lines	**11.0**	**27.0**	**104.9**	10.5	27.8	102.4
Total	**11.2**	**33.4**	**107.1**	10.1	34.8	103.0

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The following table summarizes GAAP underwriting results for the Commercial Lines, Personal Lines and Other Property and Casualty segments and reconciles it to GAAP segment income.

	Six Months Ended June 30,							
	2011				2010			
	Commercial Lines	Personal Lines	Other Property and Casualty	Total	Commercial Lines	Personal Lines	Other Property and Casualty	Total
GAAP underwriting (loss) profit, excluding prior year reserve development and catastrophes	**$ 5.7**	**$ 40.9**	**$ (0.1)**	**$ 46.5**	$ (14.2)	$ 23.9	$ (0.2)	$ 9.5
Prior year favorable loss and LAE reserve development	**23.6**	**20.0**	**0.2**	**43.8**	33.7	27.3	0.5	61.5
Pre-tax catastrophe effect	**(104.6)**	**(101.8)**		**(206.4)**	(44.3)	(75.1)		(119.4)
GAAP underwriting (loss) profit	**(75.3)**	**(40.9)**	**0.1**	**(116.1)**	(24.8)	(23.9)	0.3	(48.4)
Net investment income	**67.6**	**45.8**	**8.0**	**121.4**	64.3	51.2	7.4	122.9
Fees and other income	**10.3**	**6.3**	**3.3**	**19.9**	9.3	6.5	3.1	18.9
Other operating expenses	**(8.9)**	**(4.0)**	**(9.3)**	**(22.2)**	(9.1)	(2.8)	(9.2)	(21.1)
Segment (loss) income before federal income taxes	**$ (6.3)**	**$ 7.2**	**$ 2.1**	**$ 3.0**	$ 39.7	$ 31.0	$ 1.6	$ 72.3

Commercial Lines

Commercial Lines net premiums written increased $48.6 million, or 6.1%, to $849.0 million for the six months ended June 30, 2011. This increase was primarily driven by growth in our specialty business, particularly in our AIX program business, which accounted for $28.8 million. Also benefiting the overall growth comparison in net premiums written were modest rate increases.

Commercial Lines underwriting loss in the six months ended June 30, 2011 was $75.3 million, compared to $24.8 million in the prior year, an increase of $50.5 million. This is due to increased catastrophe losses and decreased favorable development on prior years loss and LAE reserves. Catastrophe losses increased $60.3 million in the six months ended June 30, 2011, to $104.6 million, from $44.3 million in 2010, due primarily to winter storms in the first quarter and significant tornado, hail and windstorm activity in the second quarter. Favorable development on prior years loss and LAE reserves decreased $10.1 million, to $23.6 million in the first six months of 2011, from $33.7 million for the first six months of 2010. Included in 2010 results was $7.5 million of favorable LAE development, principally related to a change in the cost factors used for establishing unallocated LAE reserves.

Commercial Lines underwriting profit, excluding prior year loss and LAE reserve development and catastrophes, improved $19.9 million, to a profit of $5.7 million, in the six months ended June 30, 2011, compared to a loss of $14.2 million in the six months ended June 30, 2010. This improvement resulted from growth in earned premium and the resulting positive effect on our expense ratio, and from an improved mix of business. Partially offsetting the effect of this growth were higher non-catastrophe losses resulting from the severe winter storms and several large fire losses. The higher level of earned premiums primarily resulted from our 2010 OneBeacon transaction and other growth initiatives.

Personal Lines

Personal Lines net premiums written decreased $10.5 million, or 1.4%, to $716.0 million for the six months ended June 30, 2011. The most significant factors contributing to this decrease were actions we have taken to reduce our market concentration in Louisiana, and our continued focus on driving profit improvement in our core states through both rate increases and more selective portfolio management, resulting in lower new business activity. These decreases were partially offset by higher rates in both our personal automobile and homeowners lines and a net premiums written increase of 7.4% in our target growth states. Continued increases in premium are expected in these target growth states based on our strategy to diversify from our core states.

Net premiums written in the personal automobile line of business declined 3.7%, primarily as a result of fewer policies in force in Michigan, Massachusetts, New York and Florida, which we attribute more selective portfolio management and increased rates in a competitive pricing environment. Net premiums written in the homeowners line of business increased 3.1%, resulting primarily from rate increases.

Personal Lines underwriting loss in the six months ended June 30, 2011 was $40.9 million, compared to $23.9 million in the prior year, an increase of $17.0 million. This is due to increased catastrophe losses and decreased favorable development on prior years loss and LAE reserves. Catastrophe losses increased $26.7 million in the six months ended June 30, 2011, to $101.8 million, from $75.1 million in 2010, due primarily to winter storms in the first quarter and significant tornado, hail and windstorm activity in the second quarter.

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Favorable development on prior years loss and LAE reserves decreased $7.3 million, to $20.0 million in the first six months of 2011, from $27.3 million for the first six months of 2010. Included in 2010 results was $2.3 million of favorable LAE development, principally related to a change in the cost factors used for establishing unallocated LAE reserves.

Personal Lines underwriting profit, excluding prior year loss and LAE reserve development and catastrophes, increased $17.0 million, to $40.9 million, in the six months ended June 30, 2011, from $23.9 million in the six months ended June 30, 2010. This increase was primarily due to more favorable current accident year loss results, as well as lower operating expenses. Current accident year loss results improved primarily due to better loss ratios in our personal automobile liability coverages, partially offset by non catastrophe weather related losses in our homeowners line.

Other Property and Casualty

Other Property and Casualty segment income increased $0.5 million, to $2.1 million for the six months ended June 30, 2011, from $1.6 million in the same period of 2010. The increase is primarily due to higher holding company net investment income.

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 (LAE) as follows:

	Six Months Ended June 30,	
(In millions)	**2011**	**2010**
Gross loss and LAE reserves, beginning of period	**$ 3,277.7**	$ 3,153.9
Reinsurance recoverable on unpaid losses	**1,115.5**	1,060.2
Net loss and LAE reserves, beginning of period	**2,162.2**	2,093.7
Net incurred losses and LAE in respect of losses occurring in:		
Current year	**1,172.3**	991.5
Prior years	**(43.8)**	(61.5)
Total incurred losses and LAE	**1,128.5**	930.0
Net payments of losses and LAE in respect of losses occurring in:		
Current year	**507.5**	416.9
Prior years	**513.2**	485.9
Total payments	**1,020.7**	902.8
Purchase of Campania		30.2
Net reserve for losses and LAE, end of period	**2,270.0**	2,151.1
Reinsurance recoverable on unpaid losses	**1,136.4**	1,073.6
Gross reserve for losses and LAE, end of period	**$ 3,406.4**	$ 3,224.7

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

(In millions)	June 30, 2011	December 31, 2010
Workers Compensation	**$ 530.7**	$ 529.0
Commercial Automobile	**227.2**	224.5
Commercial Multiple Peril	**556.1**	470.4
AIX	**219.0**	211.9
Other Commercial	**353.3**	347.2
Total Commercial	**1,886.3**	1,783.0
Personal Automobile	**1,346.6**	1,358.4
Homeowners and Other	**173.5**	136.3
Total Personal	**1,520.1**	1,494.7
Total loss and LAE reserves	**$ 3,406.4**	$ 3,277.7

Total loss and LAE reserves increased by $128.7 million for the six months ended June 30, 2011. Other Commercial lines are primarily comprised of our professional liability, general liability, umbrella, and marine lines. Included in the above table, primarily in Other Commercial lines, are $65.4 million and $68.4 million of asbestos and environmental reserves as of June 30, 2011 and December 31, 2010, respectively. In determining carried reserves as set forth above, management considers actuarial point estimates, which are primarily based on historical and current information, and other qualitative information. Such qualitative information may include legal and regulatory developments, changes in claim handling, claim cost inflation, recent entry into new markets or products, changes in underwriting practices, concerns that we do not have sufficient or quality historical reported and paid loss and LAE information with respect to a particular line or segment of our business, effects of the economy, perceived anomalies in the historical results, evolving trends or other factors. At June 30, 2011 and December 31, 2010, total recorded net reserves were $48.5 million, or 2.2%, and $65.4 million, or 3.1%, greater than actuarially indicated reserves, respectively.

Prior Year Development

Loss and LAE reserves for claims occurring in prior years developed favorably by $43.8 million and $61.5 million during the first six months of 2011 and 2010, respectively. The favorable loss and LAE reserve development during the first six months of 2011 was primarily the result of lower than expected losses in the personal automobile line across all coverages, primarily related to the 2008 through 2010 accident years, the commercial multiple peril line related to the 2008 through 2010 accident years and lower than expected losses in the 2006 through 2009 accident years in the workers compensation line. In addition, within other commercial lines, commercial umbrella contributed to the favorable development, partially offset by unfavorable development in our professional liability line, primarily related to the 2009 and 2010 accident years.

The favorable loss and LAE reserve development during the first six months of 2010 was primarily the result of lower than expected losses in the personal automobile line across all coverages, primarily in the 2007 through 2009 accident years and lower than expected losses in the commercial multiple peril line related to the 2007 through 2009 accident years. In addition, the workers compensation line related to the 2005, 2008 and 2009 accident years contributed to favorable development. The 2010 amount includes $9.8 million of favorable development resulting from a change in the cost factors used for establishing unallocated LAE reserves.

Although we experienced significant favorable development in both losses and LAE in recent years, there can be no assurance that this level of favorable development will occur in the future. We have, and we believe that we will continue to experience, less favorable prior year development in future years than we experienced recently. The factors that resulted in the favorable development of prior year reserves are considered in our ongoing process for establishing current accident year reserves. In light of our recent years of favorable development, the factors driving this development were considered to varying degrees in setting the more recent years accident year reserves. As a result, we expect the current and most recent accident year reserves not to develop as favorably as they have in the past. In light of the significance, in recent periods, of favorable development to our segment income, declines in favorable reserve development could be material to our results of operations.

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Investments

Investment Results

Net investment income decreased $0.8 million, or 1.3%, to $61.0 million for the quarter ended June 30, 2011, and $1.5 million, or 1.2%, to $121.4 million for the six months ended June 30, 2011. The decrease is primarily due to the impact of lower new money yields on fixed maturities and the sale of bonds to fund the Chaucer acquisition, partially offset by higher dividend income from equity securities and by lower investment expenses. The average pre-tax earned yield on fixed maturities was 5.35% and 5.51% for the second quarters of 2011 and 2010, respectively, and 5.32% and 5.50% for the first six months of 2011 and 2010, respectively. We expect declines in average investment yields in future periods to continue if new money rates remain at their current lower levels.

Investment Portfolio

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

(Dollars in millions)	June 30, 2011 Carrying Value	June 30, 2011 % of Total Carrying Value	December 31, 2010 Carrying Value	December 31, 2010 % of Total Carrying Value
Fixed maturities, at fair value	**$ 4,697.9**	**83.5%**	$ 4,797.9	91.3%
Equity securities, at fair value	**164.2**	**2.9**	128.6	2.4
Cash and cash equivalents	**721.6**	**12.8**	290.4	5.5
Other investments	**44.0**	**0.8**	39.4	0.8
Total cash and investments	**$ 5,627.7**	**100.0%**	$ 5,256.3	100.0%

Cash and Investments

Total cash and investments increased $371.4 million, or 7.1%, for the six months ended June 30, 2011, of which cash and cash equivalents increased $431.2 million, equity securities increased $35.6 million and fixed maturities decreased $100.0 million. The net increase in cash and cash equivalents is primarily attributable to proceeds from the issuance of senior debt in June 2011 and from the sale of fixed maturities to fund the Chaucer acquisition. See Note 4 Debt for additional information. The decline in fixed maturities resulted from the aforementioned sales and was partially offset by net unrealized gains during the year.

Our fixed maturity portfolio is comprised primarily of investment grade corporate securities, taxable and tax-exempt municipal securities, residential mortgage-backed securities, commercial mortgage-backed securities, U.S. government securities and asset-backed securities.

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

(In millions) **Investment Type**	June 30, 2011 Amortized Cost	Fair Value	Net Unrealized Gain	Change in Net Unrealized During 2011
U.S. Treasury and government agencies	**$ 212.2**	**$ 214.4**	**$ 2.2**	**$ 0.4**
Municipals:				
Taxable	**787.7**	**808.9**	**21.2**	**22.2**
Tax exempt	**156.5**	**160.2**	**3.7**	**0.7**
Corporate	**2,260.3**	**2,417.1**	**156.8**	**12.4**
Asset-backed:				
Residential mortgage-backed	**669.5**	**699.6**	**30.1**	**0.2**
Commercial mortgage-backed	**339.9**	**354.1**	**14.2**	**(3.1)**

Asset-backed	**40.2**	**43.6**	**3.4**	**(0.3)**
Total fixed maturities	**$ 4,466.3**	**$ 4,697.9**	**$ 231.6**	**$ 32.5**

During the first six months of 2011, our net unrealized gains on fixed maturities increased $32.5 million, or 16.3%, to a net unrealized gain of $231.6 million at June 30, 2011 from $199.1 million at December 31, 2010.

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

(Dollars in millions)	Rating Agency	June 30, 2011		% of Total	December 31, 2010		% of Total
NAIC Designation	Equivalent Designation	Amortized Cost	Fair Value	Fair Value	Amortized Cost	Fair Value	Fair Value
1	Aaa/Aa/A	**$ 3,010.7**	**$ 3,148.1**	**67.0%**	$ 3,175.0	$ 3,290.5	68.6%
2	Baa	**1,131.8**	**1,207.8**	**25.7**	1,115.0	1,180.4	24.6
3	Ba	**160.8**	**171.2**	**3.7**	141.1	149.3	3.1
4	B	**115.2**	**119.2**	**2.5**	119.7	123.5	2.6
5	Caa and lower	**39.4**	**40.8**	**0.9**	36.3	39.1	0.8
6	In or near default	**8.4**	**10.8**	**0.2**	11.7	15.1	0.3
Total fixed maturities		**$ 4,466.3**	**$ 4,697.9**	**100.0%**	$ 4,598.8	$ 4,797.9	100.0%

Based on ratings by the National Association of Insurance Commissioners (NAIC), approximately 93% of our fixed maturity portfolio consisted of investment grade securities at June 30, 2011 and December 31, 2010.

The quality of our fixed maturity portfolio remains strong based on ratings, capital structure position, support through guarantees, underlying security and parent ownership and yield curve position. We do not hold any securities in the following sectors: subprime mortgages, either directly or through our mortgage-backed securities; collateralized debt obligations; collateralized loan obligations; or credit derivatives.

Commercial mortgage-backed securities (CMBS) constitute $354.1 million of our invested assets, of which approximately 18% is fully defeased with U.S. government securities. The portfolio is seasoned, with approximately 67% of our CMBS holdings from pre-2005 vintages, 14% from the 2005 vintage, 10% from the 2007 vintage, 5% from the 2006 vintage and 4% from 2010 and later vintages. The CMBS portfolio is of high quality, with approximately 72% being AAA rated, 26% rated AA or A, and 2% rated BBB. The CMBS portfolio has a weighted average loan-to-value ratio of 74% and credit enhancement of approximately 26% as of June 30, 2011.

Our municipal bond portfolio constitutes approximately 17% of invested assets at June 30, 2011 and is 99% investment grade, without regard to any insurance enhancement. Currently, approximately 31% of the municipal bond portfolio has an insurance enhancement. The portfolio is well diversified by geography, sector and source of payment, and holds primarily taxable securities. Approximately 60% of the portfolio is invested in revenue bonds and 40% in general obligation bonds. Revenue bonds are backed by the revenue stream generated by the services provided by the issuer, while general obligation bonds are backed by the authority that issued the debt and are secured by the taxing powers of those authorities.

Our fixed maturity and equity securities are classified as available-for-sale and are carried at fair value. Financial instruments whose value is determined using significant management judgment or estimation constitute less than 2% of the total assets we measured at fair value. (See also Note 8 Fair Value).

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 common equity securities and below investment grade fixed maturities and other assets.

Other-than-Temporary Impairments

For the quarter ended June 30, 2011, we recognized $0.8 million of other-than-temporary impairments (OTTI) in earnings on below investment grade fixed maturity securities which we intend to sell. This included $0.6 million related to corporate bonds, primarily in the utilities sector, and $0.2 million related to municipal bonds. For the quarter ended June 30, 2010, we recognized $3.4 million of OTTI on fixed maturities and equity securities in earnings, of which $1.6 million related to common stocks, $1.2 million related to investment grade corporate bonds in the industrial sector that we intended to sell and $0.6 million was estimated credit losses on investment grade residential mortgage-backed securities.

For the first six months of 2011, we recognized $2.2 million of OTTI on fixed maturity and equity securities in earnings. OTTI on debt securities was $1.7 million, primarily on below investment grade bonds that we intend to sell, of which $0.9 million was related to a municipal bond, $0.6 million related to corporate bonds, principally in the utilities sector, and $0.2 million related to estimated credit losses on investment grade

residential mortgage-backed securities. Additionally, we recognized OTTI on a common stock of $0.5 million. For the first six months of 2010, we recognized $6.1 million of OTTI on fixed maturities and equity securities in earnings, of which $2.4 million was estimated credit losses, primarily on investment grade residential mortgage backed securities, $1.9 million related to common stocks, and $1.8 million was on bonds that we intended to sell, of which $1.2 million related to investment grade corporate bonds in the industrial sector and $0.6 million related to a below investment grade municipal bond.

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Unrealized Losses

The following table provides information about our fixed maturities and equity securities that are in an unrealized loss position. (See also Note 7 Investments of the Notes to Interim Consolidated Financial Statements.)

(In millions)	June 30, 2011 Gross Unrealized Losses	June 30, 2011 Fair Value	December 31, 2010 Gross Unrealized Losses	December 31, 2010 Fair Value
Fixed maturities:				
Investment grade:				
12 months or less	**$ 10.6**	**$ 485.0**	$ 22.9	$ 732.3
Greater than 12 months	**22.2**	**184.0**	29.7	208.2
Total investment grade fixed maturities	**32.8**	**669.0**	52.6	940.5
Below investment grade:				
12 months or less	**1.1**	**53.6**	1.0	51.1
Greater than 12 months	**9.8**	**89.2**	12.0	90.0
Total below investment grade fixed maturities	**10.9**	**142.8**	13.0	141.1
Equity securities:				
12 months or less	**0.6**	**14.9**	1.9	45.8
Total	**$ 44.3**	**$ 826.7**	$ 67.5	$ 1,127.4

Gross unrealized losses on fixed maturities and equity securities decreased $23.2 million, or 34.4%, to $44.3 million at June 30, 2011, compared to $67.5 million at December 31, 2010. The decrease in unrealized losses was primarily due to lower interest rates and tightening of credit spreads of taxable municipal bonds, corporate bonds and residential mortgage-backed securities during the first six months of 2011. At June 30, 2011, gross unrealized losses primarily consist of $22.7 million of corporate fixed maturities, $9.7 million of mortgage-backed securities and $7.3 million in taxable municipal bonds.

Gross unrealized losses associated with municipal and U.S. Treasury and government agency securities were $11.3 million and $22.5 million at June 30, 2011 and December 31, 2010, respectively.

We view the gross unrealized losses on fixed maturities and equity securities as being temporary since it is our assessment that these securities will recover in the near term, allowing us to realize their anticipated long-term economic value. With respect to gross unrealized losses on fixed maturities, we do not intend to sell nor is it more likely than not we will be required to sell debt securities before this expected recovery of amortized cost (See also Liquidity and Capital Resources). With respect to equity securities, we have the intent and ability to retain such investments for the period of time anticipated to allow for this expected recovery in fair value. The risks inherent in our assessment methodology include the risk that, subsequent to the balance sheet date, market factors may differ from our expectations; the global economic recovery is less robust than we expect; we may decide to subsequently sell a security for unforeseen business needs; or changes in the credit assessment or equity characteristics 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 OTTI would be recognized as a realized loss. Although unrealized losses are not reflected in the results of financial operations until they are realized or deemed other-than-temporary , the fair value of the underlying investment, which does reflect the unrealized loss, is reflected in our Consolidated Balance Sheets.

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The following table sets forth gross unrealized losses for fixed maturities by maturity period and for equity securities at June 30, 2011 and December 31, 2010. 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.

(In millions)	**June 30, 2011**	**December 31, 2010**
Due in one year or less	**$ 0.6**	$ 2.6
Due after one year through five years	**9.0**	11.4
Due after five years through ten years	**10.5**	17.1
Due after ten years	**13.9**	21.6
	34.0	52.7
Mortgage-backed securities	**9.7**	12.9
Total fixed maturities	**43.7**	65.6
Equity securities	**0.6**	1.9
Total fixed maturities and equity securities	**$ 44.3**	$ 67.5

The carrying values of defaulted fixed maturity securities on non-accrual status at June 30, 2011 and December 31, 2010 were not material. The effects of non-accruals compared with amounts that would have been recognized in accordance with the original terms of the fixed maturities were reductions in net investment income of $1.2 million and $1.1 million for the six months ended June 30, 2011 and 2010, respectively. Any defaults in the fixed maturities portfolio in future periods may negatively affect investment income.

Our investment portfolio and shareholders equity can be significantly impacted by changes in market values of our securities. As the U.S. and global financial markets and economies, while continuing to recover, remain unstable, 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.

Fiscal and monetary policies in place, primarily in the United States and Europe, are supportive of moderate economic growth. The removal or modification of these policies could have an adverse effect on issuers level of business activity or liquidity, increasing the probability of future defaults. While we may experience defaults on fixed income securities, particularly with respect to non-investment grade securities, it is difficult to foresee which issuers, industries or markets will be affected. As a result, the value of our fixed maturity portfolio could change rapidly in ways we cannot currently anticipate. Depending on market conditions, we could incur additional realized and unrealized losses in future periods.

Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to manage significant unplanned fluctuations in earnings caused by foreign currency and interest rate volatility. As such, we entered into a foreign currency forward contract to hedge foreign currency risk related to our acquisition of Chaucer and an interest rate forward contract to hedge the interest rate risk associated with our issuance of senior debt.

In April 2011, we entered into a foreign currency forward contract to hedge the foreign currency exchange risk embedded in the purchase price of Chaucer, which was denominated in GBP. This contract had a notional amount of £297.9 million and was settled on July 14, 2011. For the quarter and six months ended June 30, 2011, we recognized in income from continuing operations a loss of $4.7 million related to this agreement. An additional loss of $6.6 million from this contract will be recognized in earnings during the third quarter of 2011. The loss on the contract was due to a decrease in the exchange rate between the GBP and the US Dollar, and was more than offset by the lower US Dollars required to meet the GBP based purchase price. Since a foreign currency hedge in which the hedged item is a forecasted transaction relating to a business combination does not qualify for hedge accounting under ASC 815, *Derivatives and Hedging* (ASC 815), we did not apply hedge accounting to this transaction. See Note 3 Acquisitions in this Form 10-Q for additional information.

In May 2011, we entered into a treasury lock forward agreement to hedge the interest rate risk associated with our planned issuance of senior debt, which was completed on June 17, 2011. This hedge qualified as a cash flow hedge under ASC 815. It matured in June 2011 and resulted in a loss of $1.9 million, which was recorded in accumulated other comprehensive income and will be recognized in earnings over the term of the

senior notes.

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Other Items

Net income also includes the following items:

	Quarter Ended June 30,				
(In millions)	Commercial Lines	Personal Lines	Other Property and Casualty	Discontinued Operations	Total
2011					
Net realized investment gains	**$ 1.4**	**$ 0.5**	**$ 11.5**	**$**	**$ 13.4**
Gain from the retirement of debt			**0.3**		**0.3**
Costs related to acquired businesses			**(11.1)**		**(11.1)**
Loss on derivative instruments			**(4.7)**		**(4.7)**
Discontinued operations, net of taxes				**0.6**	**0.6**
2010					
Net realized investment (losses) gains	$ (0.8)	$ 1.2	$ (0.2)	$	$ 0.2
Discontinued operations, net of taxes				0.1	0.1

	Six Months Ended June 30,				
(In millions)	Commercial Lines	Personal Lines	Other Property and Casualty	Discontinued Operations	Total
2011					
Net realized investment gains	**$ 2.8**	**$ 2.1**	**$ 11.8**	**$**	**$ 16.7**
Loss from the retirement of debt			**(2.2)**		**(2.2)**
Costs related to acquired businesses			**(13.8)**		**(13.8)**
Loss on derivative instruments			**(4.7)**		**(4.7)**
Discontinued operations, net of taxes				**2.0**	**2.0**
2010					
Net realized investment gains	$ 3.8	$ 7.1	$ 0.2	$	$ 11.1
Discontinued operations, net of taxes				(0.3)	(0.3)

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

Net realized gains on investments were $13.4 million and $0.2 million in the second quarters of 2011 and 2010, respectively. Net realized gains in 2011 are primarily due to $14.1 million of gains recognized primarily from the sale of fixed maturities, partially offset by $0.8 million of other-than-temporary impairments from fixed maturities. Net realized gains in 2010 are due to $3.5 million of gains recognized primarily from the sale of fixed maturities, partially offset by $3.4 million of impairments from both fixed maturities and equity securities.

Net realized gains on investments were $16.7 million and $11.1 million for the first six months of 2011 and 2010, respectively. Net realized gains in the first half of 2011 are primarily due to $18.5 million of gains recognized primarily from the sale of fixed maturities, partially offset by $2.2 million of other-than-temporary impairments from fixed maturities and to a lesser extent, equity securities. Net realized gains in the first half of 2010 are due to $16.0 million of gains recognized primarily from the sale of fixed maturities and equity securities, partially offset by $6.1 million of impairments from both fixed maturities and equity securities.

Acquisition costs were $11.1 million and $13.8 million for the quarter and six months ended June 30, 2011, respectively, and primarily consist of advisory, legal, and accounting costs associated with the acquisition of Chaucer. See Note 3 Acquisitions in this Form 10-Q for additional information.

In April 2011, we entered into a foreign exchange forward contract which provided for an economic hedge between the agreed upon purchase price of Chaucer in GBP and currency fluctuations between the US dollar and GBP. This contract effectively locked in the value, in US dollars, of the agreed upon purchase price of the Chaucer acquisition. We recognized a $4.7 million loss as a result of the foreign exchange forward contract for the three and six months ended June 30, 2011. See Investments for additional information.

Income Taxes

We file a consolidated United States federal income tax return that includes the holding company and its subsidiaries (including non-insurance operations).

Quarter Ended June 30, 2011 Compared to Quarter Ended June 30, 2010

The provision for federal income taxes from continuing operations was a benefit of $27.3 million during the second quarter of 2011, resulting in an effective tax rate of 45.7% of pre-tax loss, compared to an expense of $0.9 million during the same period in 2010, resulting in an effective tax rate of 29.0% of pre-tax income. These provisions reflect the significant fluctuations in pre-tax GAAP results from 2010 to 2011, i.e. pre-tax income in 2010 versus a pre-tax loss in 2011, and decreases in our valuation allowance related to realized gains of $4.7 million and $0.3 million in the second quarter of 2011 and 2010, respectively. In addition, the 2011 provision reflects a $2.1 million benefit related to tax planning strategies in prior years that had been reflected in Accumulated Other Comprehensive Income. Absent these benefits, the provision for federal income taxes from continuing operations would have been a benefit of $20.5 million or 34.3% and an expense of $1.2 million or 38.7% for the quarters ended June 30, 2011 and 2010, respectively. The higher than expected tax rate in 2010 is due to the fluctuation in our underwriting results and its disproportionate impact on our change to the estimated effective tax rate.

Our federal income tax provision on segment income was a benefit of $19.5 million during the second quarter of 2011, compared to expense of $1.1 million during the same period in 2010. These provisions resulted in effective tax rates for segment income of 33.9% and 37.9% in 2011 and 2010, respectively. The higher than expected tax rate in 2010 is due to the fluctuation in our underwriting results and its disproportionate impact on our change to the estimated effective tax rate.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

The provision for federal income taxes from continuing operations was a benefit of $17.7 million during the first six months of 2011, resulting in an effective tax rate of 79.7% of pre-tax loss compared to an expense of $18.0 million during the same period in 2010, resulting in an effective tax rate of 28.8% of pre-tax income. These provisions reflect the significant fluctuations in pre-tax GAAP results from 2010 to 2011, i.e. pre-tax income in 2010 versus a pre-tax loss in 2011, and decreases in our valuation allowance related to realized gains of $5.9 million and $3.3 million in the first six months of 2011 and 2010, respectively. In addition, the 2011 provision reflects a $4.1 million benefit related to tax planning strategies in prior years that had been reflected in Accumulated Other Comprehensive Income. Absent these benefits, the provision for federal income taxes from continuing operations would have been a benefit of $7.7 million or 34.7% and an expense of $21.3 million or 34.1% for the six months ended June 30, 2011 and 2010, respectively.

Our federal income tax provision on segment income was a benefit of $6.1 million for the first six months of 2011, compared to an expense of $17.5 million during the same period in 2010. These provisions resulted in effective tax rates for segment income of 33.5% and 34.1% in 2011 and 2010, respectively. The slight decrease in 2011 is primarily due to lower underwriting income.

In the first six months of 2011, we decreased our valuation allowance related to our deferred tax asset by $25.6 million, from $91.5 million to $65.9 million. The decrease in this valuation allowance primarily resulted from unrealized appreciation in our investment portfolio and net realized capital gains in our Consolidated Statements of Income. Accordingly, we recorded decreases in our valuation allowance of $19.9 million and $5.9 million as adjustments to Accumulated Other Comprehensive Income and Federal Income Tax Expense, respectively. These were partially offset by an increase in our valuation allowance of $0.2 million reflected in Discontinued Operations.

In April 2011, we received notification that an interest refund claim filed with the Internal Revenue Service in 2009 had been accepted. The interest refund related to tax liabilities of our former life operations; therefore the benefit of $0.6 million was recorded in Discontinued Operations in the first quarter of 2011.

Critical Accounting Estimates

Our 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 out best judgment, the use of different assumptions could produce materially different accounting estimates. As disclosed in our 2010 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

Other-than-temporary impairments (OTTI)

For a more detailed discussion of these critical accounting estimates, see our Annual Report on Form 10-K for the year ended December 31, 2010.

Statutory Surplus of Insurance Subsidiaries

The following table reflects our consolidated statutory surplus:

(In millions)	*June 30, 2011*	*December 31, 2010*
Total Statutory Surplus Combined P&C Companies	**$ 1,658.6**	$ 1,747.3

The consolidated statutory surplus decreased $88.7 million during the first six months of 2011, primarily due to a $99 million ordinary dividend paid to the holding company by Hanover Insurance in April 2011.

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, as of June 30, 2011, 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):

(In millions, except ratios)	*Company Action Level*	*Authorized Control Level*	*RBC Ratio Industry Scale*	*RBC Ratio Regulatory Scale*
The Hanover Insurance Company	**$ 578.6**	**$ 289.3**	**284%**	**569%**

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 state 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). On April 15,

2011, a $99 million ordinary dividend was paid to the holding company by Hanover Insurance.

Sources of cash for our insurance subsidiaries primarily include premiums collected, investment income and maturing investments. Primary cash outflows are paid claims, losses and loss adjustment expenses, policy 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 $102.7 million during the first six months of 2011, as compared to net cash used in operations of $92.5 million during the first six months of 2010. The $194.9 million change primarily resulted from the absence in 2011 of a $100.0 million contribution made to our qualified defined benefit pension plan in 2010, and increased premium collections in the first half of 2011, primarily associated with OneBeacon business written in 2010.

Net cash provided by investing activities was $130.7 and $36.6 million during the first six months of 2011 and 2010, respectively. During 2011, cash provided was primarily related to net sales of fixed maturities used to fund the Chaucer acquisition. During 2010, cash was primarily provided from our net sales and calls of fixed maturities, proceeds of which were not reinvested during the first six months of 2010 due to market conditions.

Net cash provided by financing activities was $195.5 million during the first six months of 2011, as compared to net cash provided by financing activities of $0.5 million during the first six months of 2010. During 2011, cash provided by financing activities primarily resulted from the issuance, on June 17, 2011, of $300.0 million of unsecured senior debentures. Cash received from the issuance of debt was partially offset by the repurchase of $57.2 million of our junior debentures, repayments of collateral related to our securities lending program, and the payment of dividends to our shareholders. During 2010, cash provided by financing activities was primarily due to proceeds from the issuance, on February 23, 2010, of unsecured senior debentures. This was largely offset by repurchases of common stock, repayments of collateral related to our securities lending program, and payments of dividends to our shareholders.

The Company held cash and cash equivalents of $721.6 million at June 30, 2011. The increased cash level reflects additional liquidity requirements related to the settlement of the Chaucer acquisition which occurred on July 14, 2011. As described in the Note 3 Acquisitions in this Form 10Q , on July 1, 2011, the Company completed the previously announced acquisition of Chaucer. On July 14, 2011, the Company paid $455.0 million (based on GBP converted to USD exchange rate of 1.5833 and excluding the portion of the purchase price in the form of loan notes) with funds on hand at the holding company, which included $300 million of proceeds from the senior unsecured notes issued on June 17, 2011.

On June 17, 2011, the Company issued $300 million aggregate principal amount of 6.375% senior unsecured notes due June 15, 2021. The senior debentures are subject to certain restrictive covenants, including limitations on the issuance or disposition of capital stock of restricted subsidiaries. These debentures pay interest semi annually. The Company is in compliance with the covenants associated with this indenture.

In April 2011, the Company entered into a bridge credit agreement for borrowings in an aggregate principal amount of up to $180 million to be used solely in connection with the acquisition of Chaucer. This bridge agreement terminated upon the issuance, on June 17, 2011, of the aforementioned $300 million aggregate principal amount of 6.375% senior unsecured notes.

At June 30, 2011, THG, as a holding company, held $759.4 million of fixed maturities and cash. Funds of $455.0 million were used on July 14, 2011 to complete the acquisition of Chaucer and approximately $13 million of additional funds will be paid over the next several years for notes provided in lieu of cash to certain Chaucer shareholders. See Note 3 Acquisitions in this Form 10Q for additional information on the Chaucer acquisition. We believe the remaining holding company assets are sufficient to meet additional obligations of the holding company during the second half of 2011, which consists primarily of the interest on our senior and junior debentures, our dividends to shareholders (as and to the extent declared), 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. We do not expect that it will be necessary to dividend additional funds from our insurance subsidiaries in order to fund 2011 holding company obligations; however, we may decide to do so.

Dividends to common shareholders are subject to quarterly board approval and declaration. During the first six months of 2011, we paid two quarterly dividends, as declared by the Board, each of $0.275 per share to our shareholders, totaling $25 million. We believe that our holding company assets are sufficient to provide for future shareholder dividends should the Board of Directors declare them.

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. Based upon the current estimate of liabilities and certain assumptions regarding investment returns and other factors, our qualified defined benefit pension plan is essentially fully funded as of June 30, 2011. As a result, we currently expect that significant cash contributions will not be required for this plan for several years. However, the ultimate payment amount is based on several assumptions, including but not limited to, the rate of return on plan assets, the discount rate for benefit obligations, mortality experience, interest crediting rates and the ultimate valuation and determination of benefit obligations. Since differences between actual plan experience and our assumptions are likely, changes to our funding obligations in future periods are possible.

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. We expect our insurance subsidiaries to generate sufficient operating cash to meet all short-term and long-term cash requirements. 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.

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Since October 2007 and through December 2010, our Board of Directors has authorized aggregate repurchases of our common stock of up to $500 million. Our repurchases may be executed using open market purchases, privately negotiated transactions, accelerated repurchase programs or other transactions. We are not required to purchase any specific number of shares or to make purchases by any certain date under this program. On March 30, 2010, we entered into an accelerated share repurchase agreement and utilized a portion of our existing share repurchase authorization for the immediate repurchase of 2.3 million of our common stock at a cost of $105.0 million. During the first six months of 2011, we did not repurchase any additional shares of our common stock.

Additionally, from time to time, we may also repurchase debt. In February 2011, we repurchased $48.0 million of our Junior Debentures at a cost of $50.5 million, resulting in a $2.5 million loss on the repurchase. In June 2011, the Company repurchased an additional $7.0 million of Junior Debentures at a cost of $6.7 million, resulting in a gain of $0.3 million on the repurchase. Our Junior Debentures have a face value of $74.2 million as of June 30, 2011 and pay cumulative dividends semi-annually at 8.207% and mature February 3, 2027. We may decide to repurchase additional Junior Debentures or Senior Debentures on an opportunistic basis.

On August 2, 2011, we entered into a $200.0 million committed syndicated credit agreement which expires in August 2015. Borrowings, if any, under this agreement are unsecured and incur interest at a rate per annum equal to, at our option, a designated base rate or the Euro dollar rate plus applicable margin. The agreement provides covenants, including but not limited to, maintaining a certain level of consolidated equity, consolidated leverage ratios, and an RBC ratio in our primary US domiciled property and casualty companies of 175%.

Off-Balance Sheet Arrangements

We currently do not have any material off-balance sheet arrangements that are reasonably likely to have a material effect on our financial position, revenues, expenses, results of operations, liquidity, capital expenditures, or capital resources.

Contingencies and Regulatory Matters

Information regarding contingencies and regulatory matters appears in Part I Note 13 Commitments and Contingencies of the Notes to Interim Consolidated Financial Statements.

Recent Developments

On July 1, 2011, we completed the previously announced acquisition of Chaucer. See Note 3 Acquisitions in this Form 10-Q for additional information.

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 Annual Report on Form 10-K for the fiscal year ended December 31, 2010. This Management s Discussion and Analysis should be read and interpreted in light of such factors.

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ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

Our market risks, the ways we manage them, and sensitivity to changes in interest rates are summarized in Management s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2010, included in our Annual Report on Form 10-K for the year ended December 31, 2010. There have been no material changes in the first six months of 2011 to these risks or our management of them except for our exposure to changes in foreign currency rates.

In the second quarter of 2011, we were exposed to foreign currency exchange rate fluctuation as the Chaucer purchase price was denominated in UK Pounds Sterling (GBP). To mitigate the short-term effect of changes in the exchange rate of the GBP to the US dollar, we entered into a foreign currency forward contract with a notional amount of 297.9 million GBP. The fair value of the derivative liability at June 30, 2011 and the associated loss recorded through June 30, 2011 was $4.7 million. A hypothetical increase or decrease in the exchange rate of 1% would result in a gain or loss on the derivative of $4.8 million. This contract was settled on July 14, 2011 contemporaneously with the completion of the Chaucer acquisition, resulting in an additional loss of $6.6 million from this contract that will be recognized in earnings during the third quarter of 2011. See Note 3 Acquisitions in this Form 10-Q for additional information.

Additionally, we are in the process of evaluating the impact of ongoing operations resulting from the acquisition of Chaucer on our foreign exchange rate and interest rate exposure, including a review of hedging strategies to manage these risks.

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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, does 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). Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the internal control over financial reporting, as required by Rule 13a-15(d) of the Exchange Act, to determine whether any changes occurred during the period covered by this 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 that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that there was no such change during the quarter ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On July 1, 2011, the Company closed on the acquisition of Chaucer Holdings PLC (Chaucer). Chaucer will be excluded for the purposes of management s evaluation of our internal control over financial reporting as of December 31, 2011.

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PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

Reference is made to Commitments and Contingencies Legal Proceedings in Note 13 of the Notes to Interim Consolidated Financial Statements.

ITEM 1A RISK FACTORS

This document contains, and management may make, certain forward-looking statements within the meaning of 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, the words: believes , anticipates , expects , projections , outlook , should , could , plan , guida track to , targeted and similar expressions are intended to identify forward-looking statements. We wish to caution readers that accuracy with respect to forward-looking projections is difficult and 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 2011 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;

adverse loss development;

changes in frequency and loss trends;

changes in regulation and economic conditions, particularly with respect to regions where we have geographical concentrations;

volatile and unpredictable developments, including severe weather and other natural physical events, catastrophes and terrorist actions;

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, 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;

an increase in mandatory assessments by state guaranty funds;

actions by our competitors, many of which are larger or have greater financial resources than we do;

loss or retirement of key employees;

operating difficulties and other unintended consequences from acquisitions and integration of acquired businesses, the introduction of new products and related technology changes and 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 strategies;

- 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 technology, data security and/or outsourcing relationships may negatively impact our ability to conduct business;
- unfavorable judicial or legislative developments; and
- other factors described in such forward-looking statements.

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, 2010. The factors listed below represent risks that have changed since our Annual Report on Form 10-K for the year ended December 31, 2010.

Our Acquisition of Chaucer involves a number of integration risks. These risks could cause a material adverse effect on our business, financial position and results of operations and could cause the market value of our stock to decline.

On July 1, 2011, we completed the acquisition of Chaucer Holdings PLC (Chaucer and such acquisition, the Acquisition). If we are unable to successfully integrate Chaucer into our business, we could be impeded from realizing all of the benefits of the Acquisition. The integration process could disrupt our business and a failure to successfully integrate the two businesses could have a material adverse effect on our business, financial condition and results of operations. In addition, the integration of two formally unaffiliated companies could result in unanticipated problems, expenses, liabilities, competitive responses, loss of agent relationships, and diversion of management s attention and may cause our stock price to decline. The difficulties of integrating an acquisition include, among others:

- unanticipated issues in integrating information, communications and other systems;
- unanticipated incompatibility of logistics, marketing and administration methods;
- maintaining employee morale and retaining key employees;
- integrating the business cultures of both companies;
- preserving important strategic, reinsurance and other relationships;
- integrating legal and financial controls in multiple jurisdictions;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;

the diversion of management s attention from ongoing business concerns;

integrating geographically separate organizations;

significant transaction and integration costs, including the effect of exchange rate fluctuations;

risks and uncertainties in our ability to increase the investment yield on the Chaucer investment portfolio;

risks uncertainties in our ability to decrease leverage as a result of adding future earnings to our capital base;

risks and uncertainties regarding the volatility of underwriting results in a combined entity;

an ability to more efficiently manage capital;

tax issues, such as tax law changes and variations in tax laws as compared to the United States;

an ability to improve renewal rates and increase new property and casualty policy counts;

an ability to increase or maintain certain property and casualty insurance rates (including with respect to UK motor business);

heightened competition (including rate pressure);

- complying with laws, rules and regulations in multiple jurisdictions, including new and multiple employment regulations; and
- the impact of new product introductions.

In addition, even if our businesses are integrated successfully, we may not realize the full benefits of the Acquisition, including the synergies, cost savings or underwriting or growth opportunities that we expect. It is possible that these benefits may not be achieved within the anticipated time frame, or at all.

We could face new and additional risks in connection with the acquired business of Chaucer which could cause a material adverse effect on our business, financial position and results of operations.

We could be exposed to new and additional risks associated with the business and operations of Chaucer which could cause a material adverse effect on our business, financial position and results of operations; and such risks effectively have been allocated to us as of April 20, 2011, the date of the offer to acquire the shares of Chaucer. The additional risks to which we may be exposed include, but are not limited to, the following:

- an expansion of risks to which we are already subject as an insurance company, such as risk of adverse loss development, litigation, investment risks and the possibility of significant catastrophe losses (as a result of natural disasters, nuclear accidents, severe weather and terrorism) occurring in the countries in which Chaucer operates, and others;
- the uncertainties in estimating man-made and natural catastrophe losses (including with respect to recent catastrophe losses in Australia, Chile, New Zealand and Japan which have affected Chaucer, and winter storm-related losses which have affected us);
- risks relating to the application and interpretation of insurance and reinsurance contracts, particularly with respect to a complex international event such as the unfolding problems at the Fukushima Dai-ichi nuclear power complex in Japan and its impact on Lloyd s Syndicate 1176, in which Chaucer has a 55% interest;
- adverse and evolving state, federal and, with respect to Chaucer or the combined companies, foreign legislation or regulation;
- Chaucer s exposure to currency risks and fluctuations, as a significant proportion of Chaucer s business, is conducted in various currencies and in several countries outside the United States;
- unexpected or overlapping concentrations of risk where one event or series of events can affect many insured parties;
- uncertainties in estimating of Chaucer s current single occupational pension scheme deficit; and
- risks and uncertainties relating to changes to European and UK law and regulation, which include: (a) a new composite European Union directive (known as Solvency II) covering the prudential supervision of all insurance and reinsurance companies that is being developed to replace the existing life, non-life insurance and reinsurance directives that govern the insurance business in the U.K. (among various other obligations, Solvency II will impose new capital requirements on Chaucer); and (b) changes to the regulatory framework in the UK with the introduction of two new regulatory authorities to replace the Financial Services Authority.

Additionally, as a specialist in Lloyd s insurance group, Chaucer is subject to a number of specific risk factors and uncertainties, including without limitation: its reliance on insurance and reinsurance brokers and distribution channels to distribute and market its products; its obligations to maintain funds at Lloyd s to support its underwriting activities; its risk-based capital requirement being assessed periodically by Lloyd s and being subject to variation; its reliance on ongoing approvals from Lloyd s, the Financial Services Authority and other regulators to conduct its business; the limitations and approval requirements that certain of Chaucer s regulated subsidiaries face from the Financial Services

Authority with respect to payment of dividends, return of capital to any shareholder and becoming a borrower, guarantor or provider of security interest on any financial obligations; its obligations to contribute to the Lloyd s New Central Fund and pay levies to Lloyd s; its ongoing ability to benefit from the overall Lloyd s credit rating; its ongoing ability to utilize Lloyd s trading licenses in order to underwrite business outside the United Kingdom; its ongoing exposure to levies and charges in order to underwrite at Lloyd s; and the requirement for it to maintain deposits in the United States for U.S. site risks it underwrites.

We cannot assure you that we will be able to adequately address these additional risks. If we are unable to do so, our operations might suffer.

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As one of our consolidated companies, Chaucer and its subsidiaries will be subject to Sarbanes-Oxley and rules and regulations of the SEC and PCAOB.

Chaucer and its subsidiaries have become subsidiaries of our consolidated company, and will need to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations subsequently implemented by the Securities and Exchange Commission and the Public Company Accounting Oversight Board. We will need to ensure that Chaucer establishes and maintains effective disclosure controls, as well as internal controls and procedures for financial reporting.

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ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Shares purchased in the second quarter of 2011 are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
April 1 30, 2011		$		$ 157,000,000
May 1 31, 2011	640	41.98		157,000,000
June 1 30, 2011				157,000,000
Total	640	$ 41.98		$ 157,000,000

The number of shares purchased reflect shares withheld to satisfy tax withholding amounts due from employees related to the receipt of stock which resulted from the vesting of restricted stock units.

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ITEM 6 EXHIBITS

EX	4.1	Second Supplemental Indenture dated as of June 17, 2011, between U.S. Bank National Association, as trustee, including the form of Global Note attached as Annex A thereto, supplementing the Indenture dated as of January 21, 2010 previously filed as Exhibit 4.1 to Registrant s Current Report on Form 8-K filed on June 17, 2011 and incorporated herein by reference.
EX	4.2	Trust Deed Constituting $50,000,000 Floating Rate Subordinated Notes due 2036 dated September 21, 2006 between Chaucer Holdings PLC and Wilmington Trust (Channel Islands), Ltd
		Management agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any other agreements or instruments of the Company and its subsidiaries defining the rights of holders of any non-registered debt whose authorized principal amount does not exceed 10% of The Hanover Insurance Group, Inc. s total consolidated assets.
EX	10.1	Description of 2011 2012 Non-Employee Director Compensation.
EX	10.2	Service Agreement dated January 20, 2010 by and between Robert Stuchbery and Chaucer Holdings PLC.
EX	10.3	Chaucer Pension Scheme, as amended.
EX	10.4	£90,000,000 Letter of Credit Facility Agreement dated November 29, 2010 between, among others, Chaucer Holdings PLC as the account party, Barclays Bank PLC, Lloyds TSB Bank PLC and The Royal Bank of Scotland PLC as mandated lead arrangers and Lloyds TSB Bank PLC as bookrunner, facility agent and security agent, as amended by Amendment Letter dated February 28, 2011.
EX	10.5	Credit Agreement, dated August 2, 2011, among The Hanover Insurance Group, Inc., as Borrower, Wells Fargo Bank, National Association, as administrative agent, and various other lender parties, previously filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on August 3, 2011 and incorporated herein by reference.
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 June 30, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Income for the quarter and six months ended June 30, 2011 and 2010; (ii) Consolidated Balance Sheets at June 30, 2011 and December 31, 2010; (iii) Consolidated Statements of Shareholders Equity for the six months ended June 30, 2011 and 2010; (iv) Consolidated Statements of Comprehensive Income for the quarter and six months ended June 30, 2011 and 2010; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010, and (vi) related notes to these consolidated financial statements.

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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 thereunto duly authorized.

	The Hanover Insurance Group, Inc Registrant
August 9, 2011 Date	/s/ Frederick H. Eppinger, Jr. Frederick H. Eppinger, Jr. President, Chief Executive Officer and Director
August 9, 2011 Date	/s/ David B. Greenfield David B. Greenfield Executive Vice President, Chief Financial Officer and Principal Accounting Officer