

# 2012 Annual Meeting of Shareholders

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## Building On Our Distinctive Position To Achieve Long-Term Success

May 15, 2012

To be used only in conjunction with the Annual Meeting  
to be held at 9:00 a.m. ET on May 15, 2012

# Forward-Looking Statements and Non-GAAP Financial Measures

**Forward-Looking Statements:** Certain statements in this presentation, including responses to questions, contain or may contain “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Use of the words “believes,” “anticipates,” “expects,” “projections,” “outlook,” “should,” “plan,” “confident,” “guidance,” “on track to,” “promise,” “line of sight,” “will” and similar expressions are intended to identify forward-looking statements. In particular, this presentation includes or may include forward-looking statements with respect to the ability to continue to improve our financial performance; underlying loss ratio trends; projections or estimates of 2012 net written premium and segment income per share; improved market and economic conditions; building momentum in Personal and Commercial Lines profitability improvement; the pricing environment and the company’s ability to increase rates in domestic P&C and in Lloyd’s businesses; competitive position, including with respect to agents; net written premium growth and retention; new business growth; future prior year reserve development and reserve adequacy; the impact of seasonality; the impact of various agency and exposure management actions on net written premiums and segment income; GAAP and accident year loss ratios; expense ratio and expense improvements from improving scale; adequacy of capital to rating agency expectations; product margins, including with respect to specialty businesses; expected contribution of Chaucer Holdings plc (“Chaucer”) to consolidated earnings, including expected segment earnings for the full year 2012, and Chaucer’s earnings accretion; net investment income and the effect of lower yields on future net investment income; and the expected impact of product- geographic- and account- based mix changes on future growth and profitability.

The company cautions investors that neither historical results and trends nor forward-looking statements are guarantees of or necessarily indicative of future performance, and actual results could differ materially. Investors are directed to consider the risks and uncertainties in our business that may affect future performance and that are discussed in readily available documents, including the company’s earnings press release dated April 30, 2012, the Annual Report, the Form 10-Q for the three month period ended March 31, 2012 and other documents filed by The Hanover with the Securities and Exchange Commission, which are available at [www.hanover.com](http://www.hanover.com) under “Investors.” We assume no obligation to update this presentation, which, unless otherwise noted, speaks as of March 31, 2012.

These uncertainties include the uncertain U.S. and global economic environment, the possibility of adverse catastrophe experience (including terrorism) and severe weather, the uncertainties in estimating catastrophe and non-catastrophe weather-related losses, the uncertainties in estimating property and casualty losses, accident year picks, and incurred, but not reported loss and LAE reserves, the ability to increase or maintain certain property and casualty insurance rates, the impact of new product introductions, adverse loss and LAE development for prior years, changes in frequency and loss trends, the ability to improve renewal rates and increase new property and casualty policy counts, adverse selection in underwriting activities, investment impairments, the impact of competition (including rate pressure), adverse and evolving state, federal and, with respect to Chaucer, international, legislation or regulation, adverse regulatory or litigation actions, financial ratings actions, the risks that the company will not achieve the benefits from the Chaucer transaction and those inherent in Chaucer’s business.

**Basis of Presentation:** Prior periods were restated for the effect of the company’s adoption of the new Deferred Acquisition Cost (“DAC”) methodology. See Book Value and Other Items on page 6 of the press release dated April 30, 2012 for more detail.

**Non-GAAP Measures:** The discussion in this presentation of The Hanover’s financial performance includes reference to certain financial measures that are not derived from generally accepted accounting principles, or GAAP, such as total segment income, segment income after taxes, combined ratios and loss ratios excluding catastrophes and/or development and accident year loss ratios excluding catastrophes. A reconciliation of non-GAAP measures to the closest GAAP measure is included in either the press release or statistical supplement, which are posted on our website. The reconciliation of accident year loss ratio and combined ratio excluding catastrophes to the April 30, 2012 nearest GAAP measure, total loss ratio and combined ratio, is found on pages 6, 8 and 10 of the statistical supplement. Segment income after-tax (segment income after tax per diluted share) is a non-GAAP measure. It is defined as net income excluding the after-tax impact of net realized investment gains (losses), as well as results from discontinued operations for a period divided by the average number of diluted shares of common stock. The definition of other financial measures and terms can be found in the Annual Report on pages 80-82.

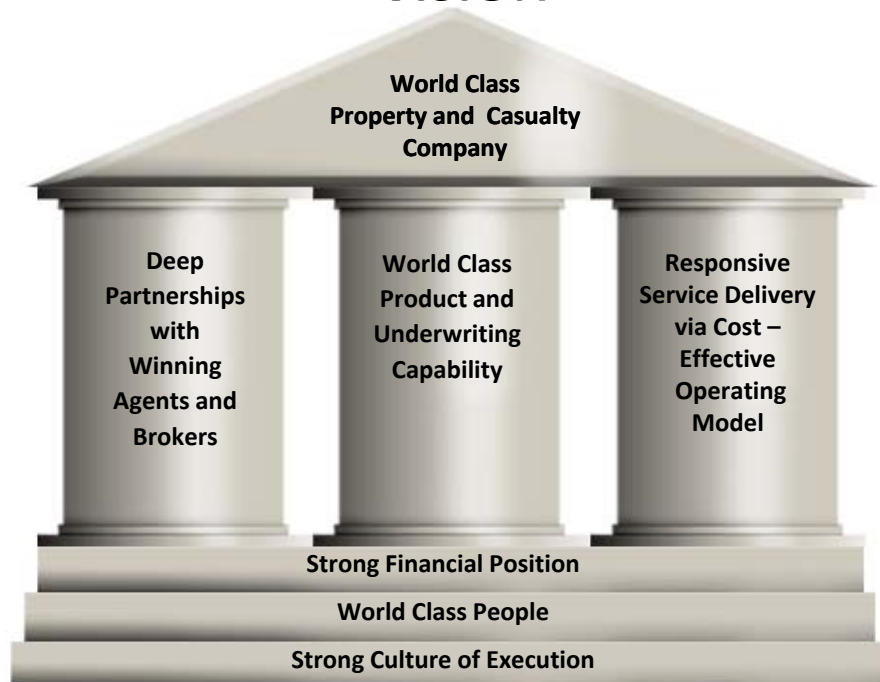
## A Period of Significant Opportunity For The Hanover

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- 2011 was a challenging weather year for The Hanover and the industry, but we made significant progress on our journey
- Over the last seven years, we have completely transformed the company, creating a much stronger organization and a much more distinctive franchise
- Our current product portfolio and distinctive position with the best distributors now positions us to deliver strong financial performance through the cycle
- Current market disruption will likely create opportunities that we can capitalize on to create additional value and grow profitably
- We are financially well positioned to demonstrate improved performance over the next 12 to 24 months, and to move toward top-quartile performance

# We Remain Focused On Building A World Class Company

## Our VISION



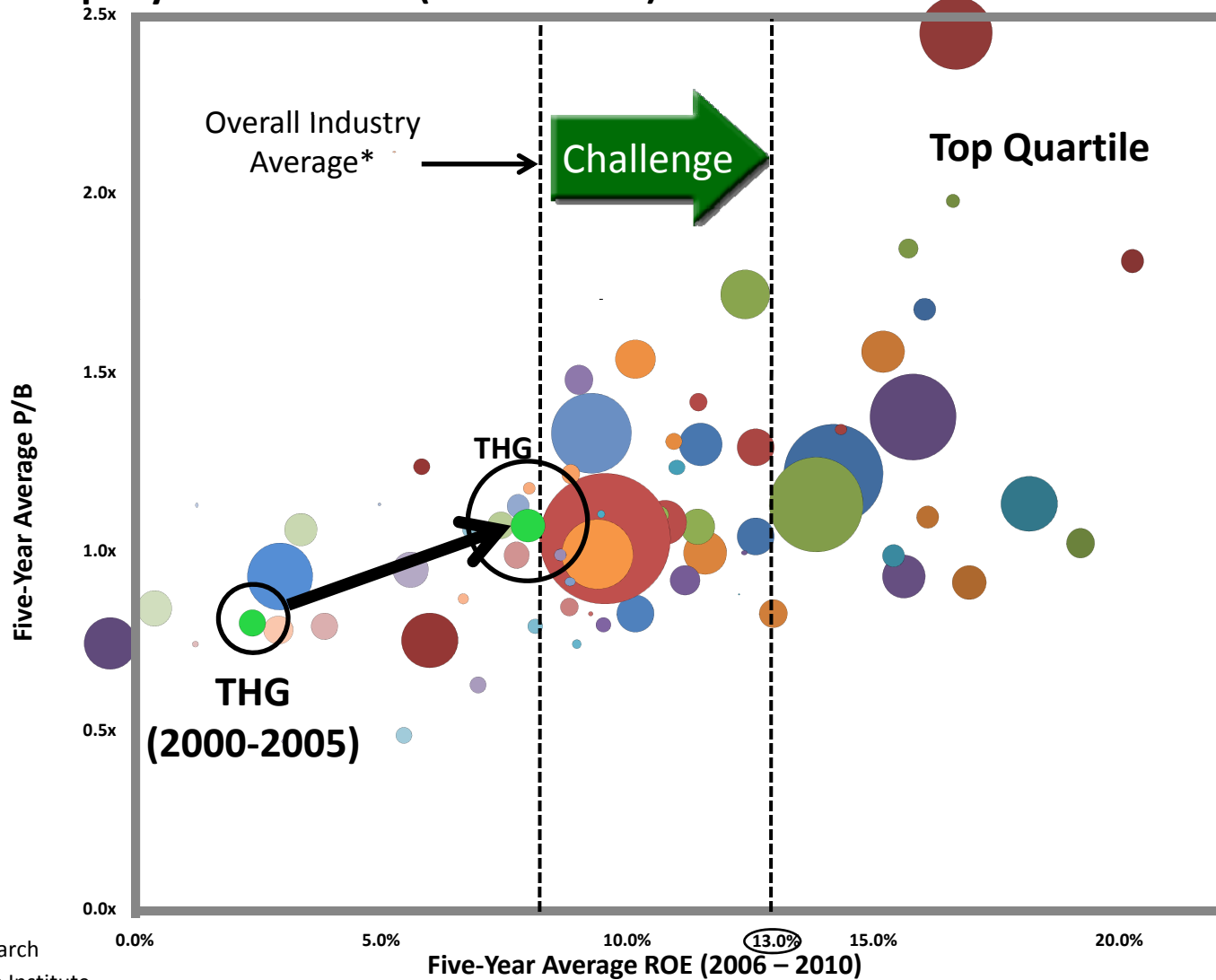
## Our Strategic Focus:

- ✓ A more differentiated product portfolio in more attractive areas of the industry
- ✓ A more distinctive market position in our businesses with strong underwriting acumen and risk management expertise
- ✓ A value proposition that creates a strong, differentiated position with winning agents and brokers
- ✓ Deep, talented team
- ✓ The financial flexibility and strength to capture opportunities

**Our Goal: To Deliver 11 – 13% ROE Through The Cycle**

# We Have Become A Better Company, And...

## Public Company Performance (2006 – 2010)



Source: Company Research

\* Insurance Information Institute

Note: Hanover data excludes capital losses from sale of life company.

# ...We Are Poised To Take The Next Step

2004   2005   2006   2007   2008   2009   2010   2011   2012

## *LEVERAGE CAPABILITIES & IMPROVE RETURNS*

- Enhanced financial performance
- Penetration of Specialty
- Penetration of top agents
- Establish Chaucer Specialty

## *EXPAND CAPABILITIES AND REACH*

- New geographies
- U.S. Specialty portfolio
- National operating model
- Industry solutions

## *IMPROVE CORE CAPABILITIES AND POSITION*

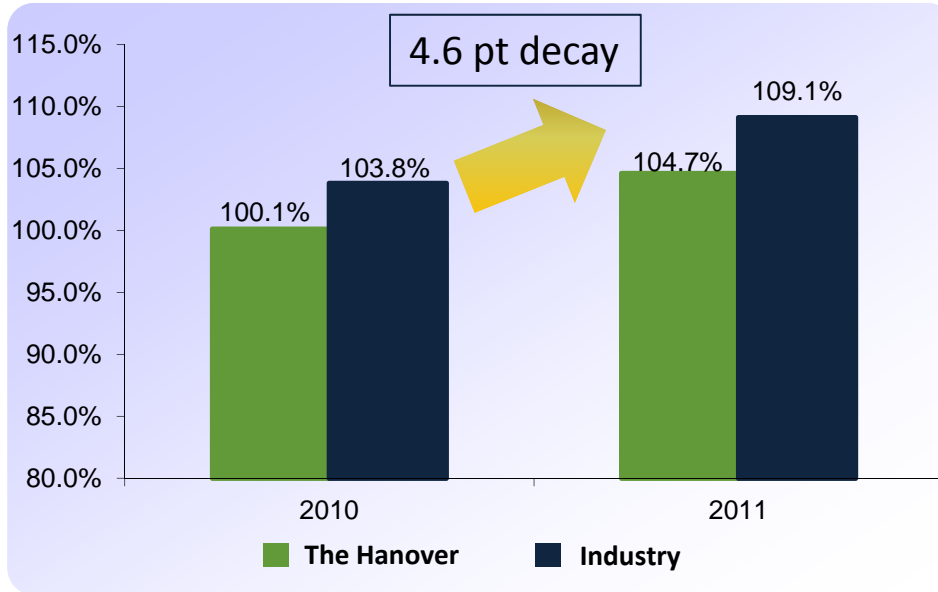
- Demonstrate the value of The Hanover partnership
- Invest in Core Commercial and Small Commercial offerings
- Build Personal Lines account offering

## *REPAIR & FOCUS*

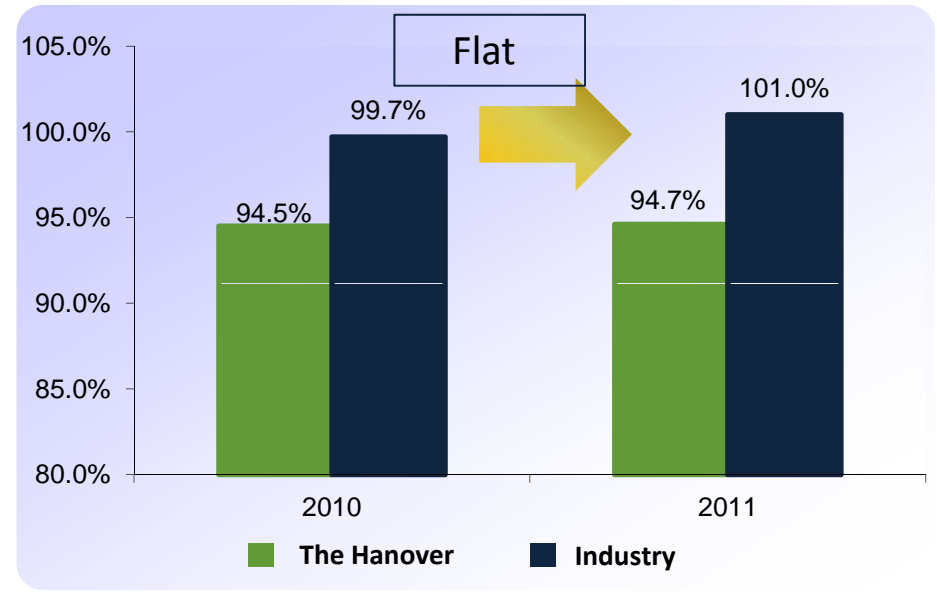
- Focus portfolio; sell life; re-underwrite weak P&C business
- Return core products to profitability
- Upgrade talent and core systems

# In 2011, Weather Adversely Impacted Results... But, We Continued To Out Perform The Industry

**Combined Ratio**



**Ex-Catastrophe Combined Ratio**

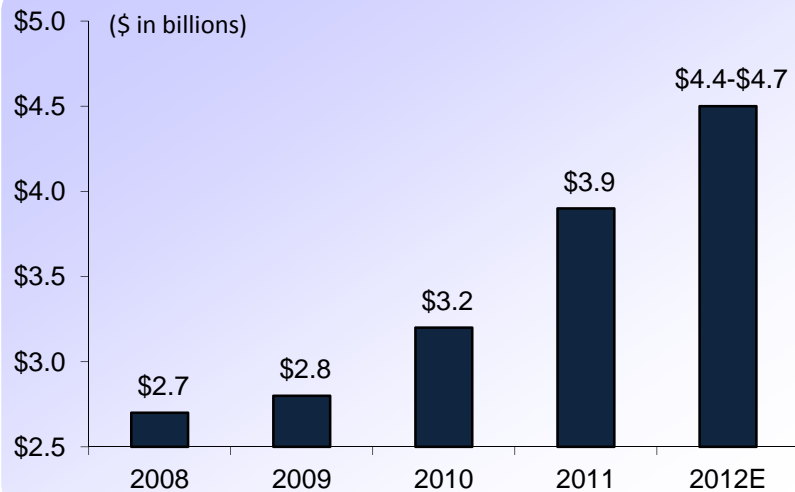


- 2011 highest catastrophe losses in history \$362 million
- 10 pts. on combined ratio

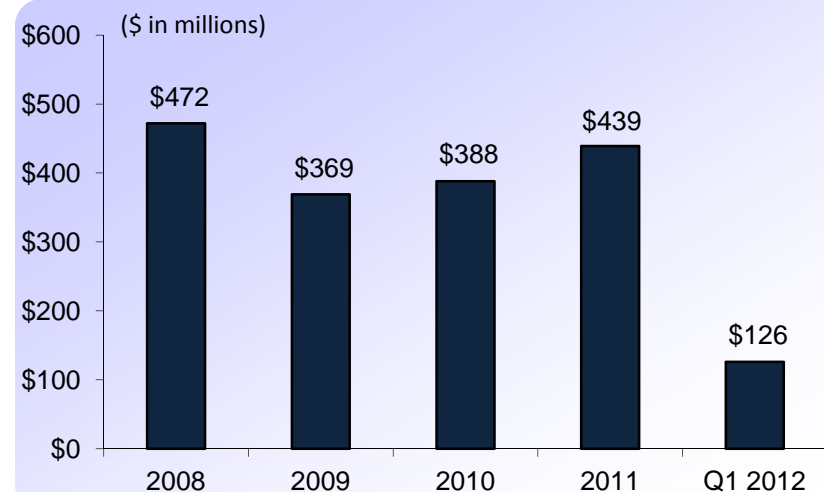
# Solid Progress Toward Our Goals

## Earnings Power

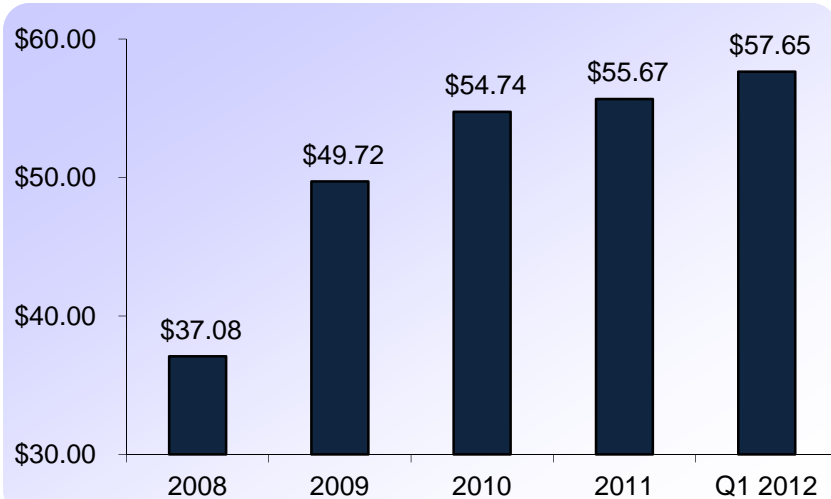
### Company Revenue Growth



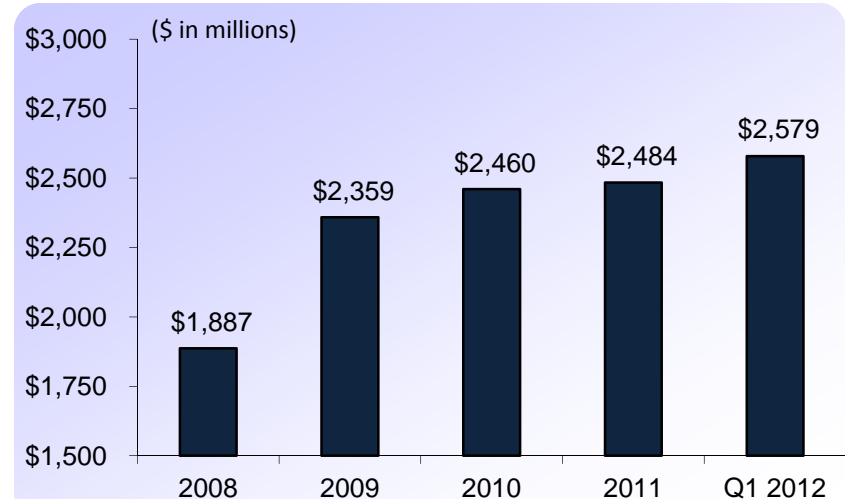
### Pre-Tax P&C Segment Income Ex-Cat



### Book Value Per Share



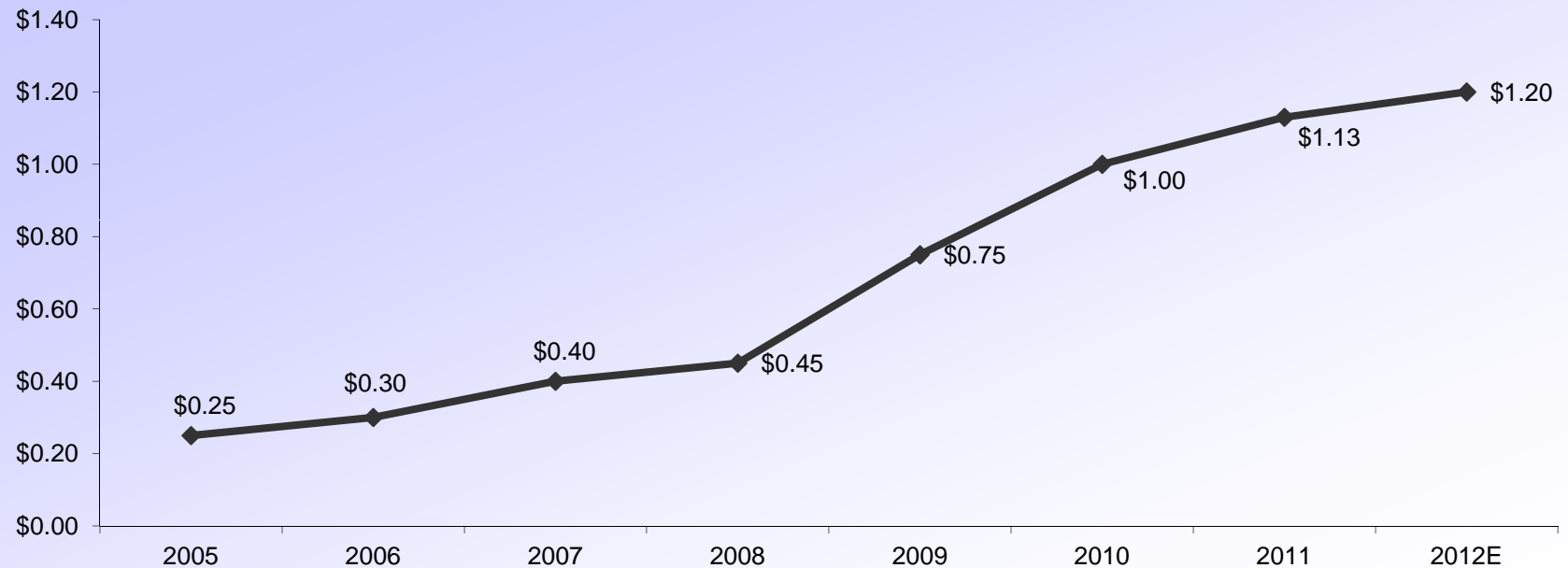
### Company Shareholder Equity





## ...And, Increasing Shareholder Dividends

### Shareholder Dividend/Share

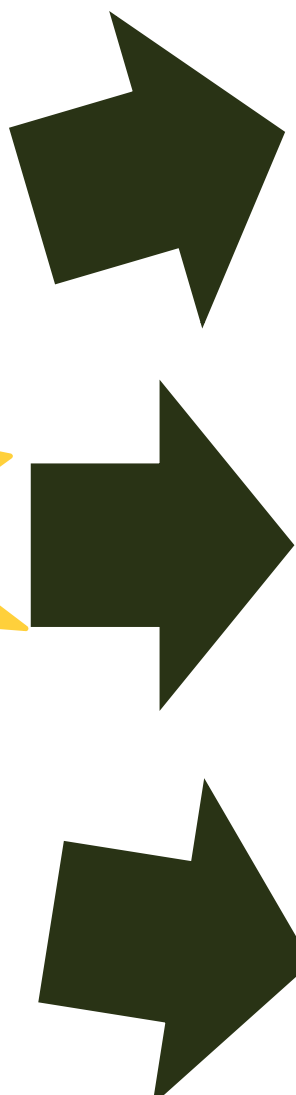


## Outlook Strong: Quality Of Business Significantly Improved

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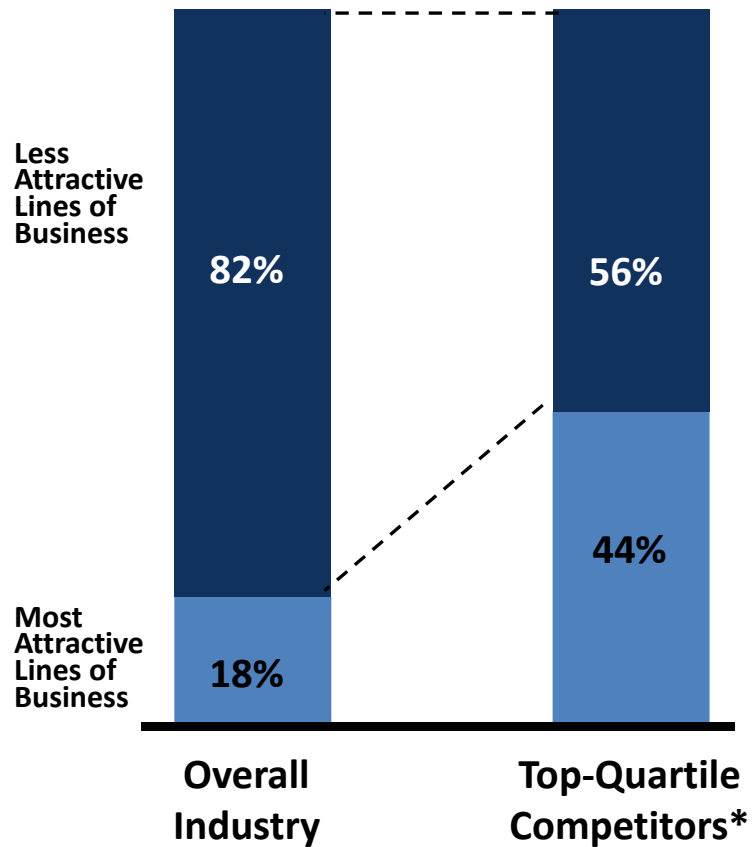


The Hanover  
Positioned for  
Improved  
Financial  
Performance

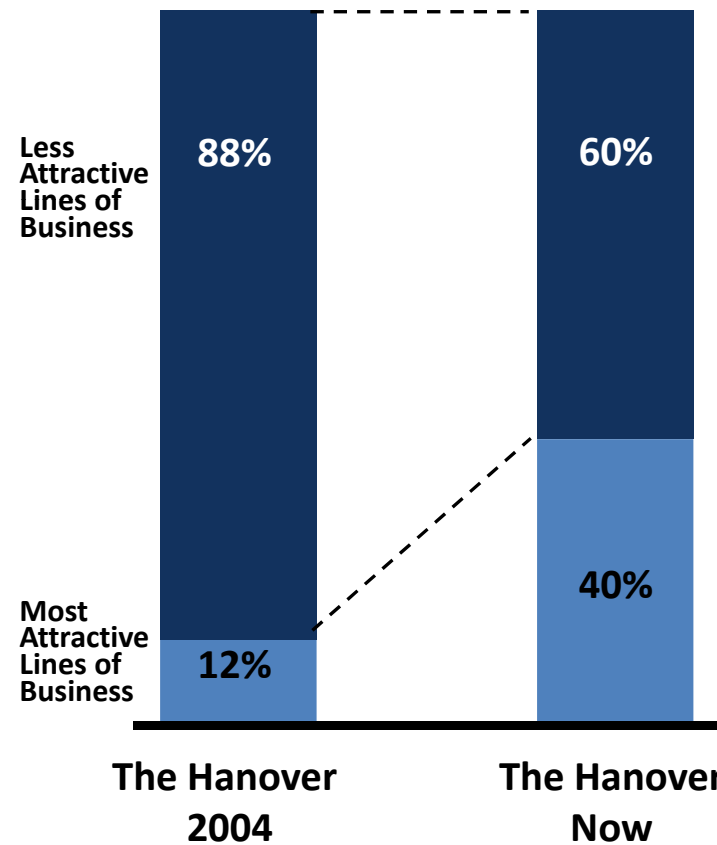
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- I. A better mix of business
    - Line of business
    - Geography
    - Better pricing and underwriting
  - II. Businesses with more distinctive, competitive position
  - III. The Hanover's value proposition leads to preferred shelf space

# Portfolio Has Been Completely Repositioned – More Like Top-Quartile Companies

**Top Quartile Better Mix Than Industry**



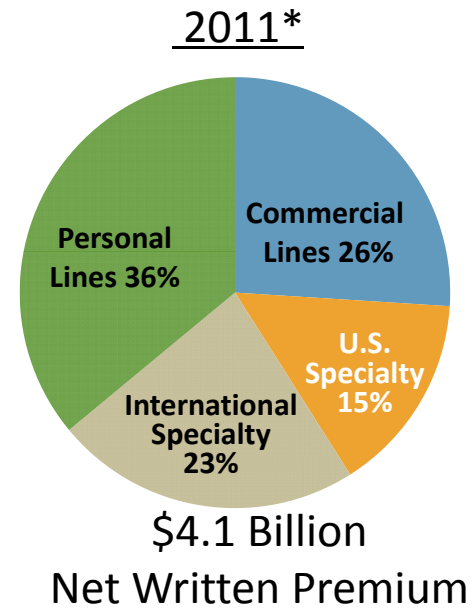
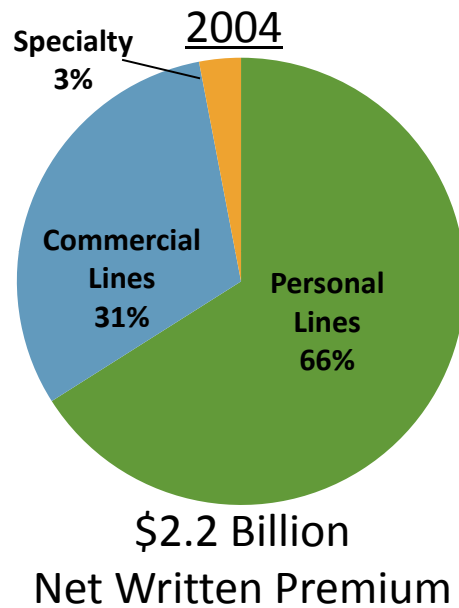
**The Hanover Mix Change**



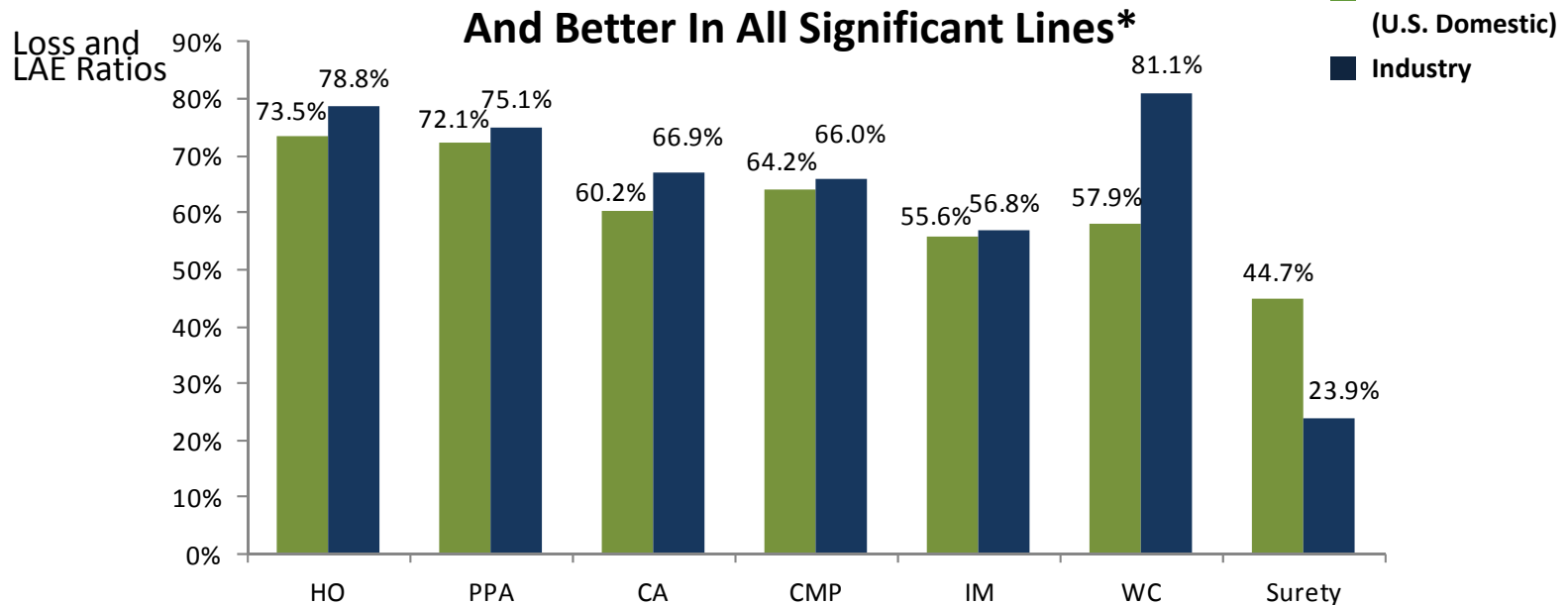
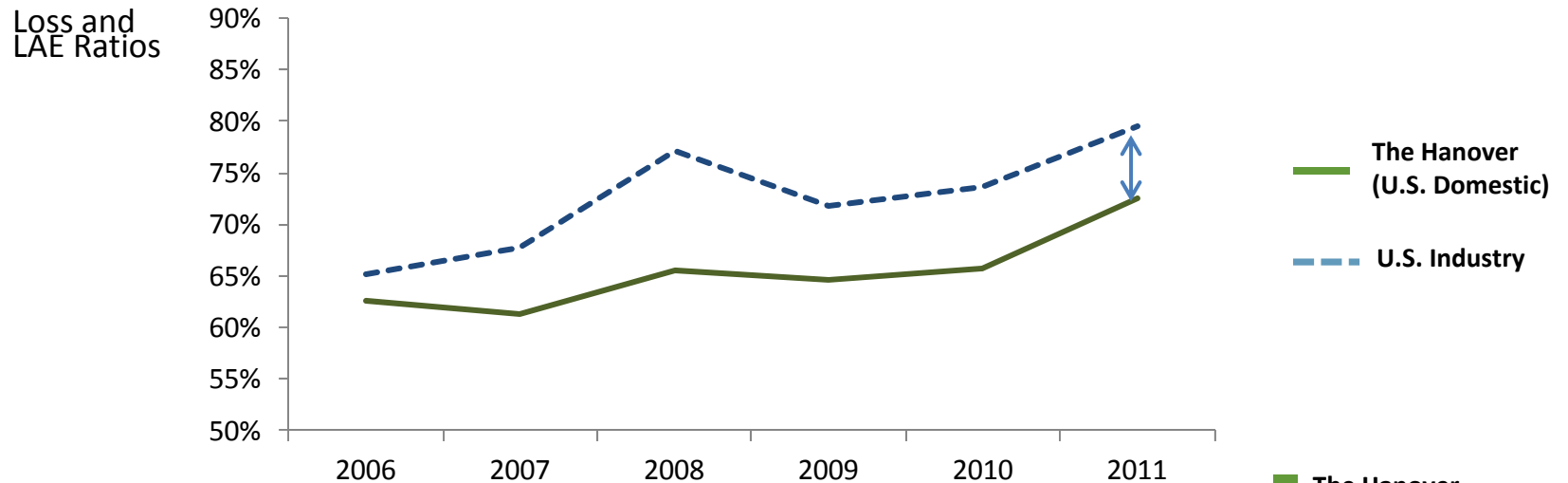
\* Composite of relevant publicly-held insurance companies that have achieved top-quartile over last cycle (Berkley, Travelers, Chubb).

# Today, We Have A More Balanced And Diversified Book Of Business

## Business Mix



# We Also Have Improved Our Underwriting And Pricing Capabilities



\* Five-year average loss and LAE ratios (2007– 2011)  
Source: Industry Data - SNL Financial

# And Importantly, We Have Created A Distinctive Position In Most Of Our Businesses

## 2011 Business Profile

### Personal Lines – 36%

- Strong offering for attractive account segment
- Consistent delivery of pricing while holding retention
- Growing attractive business segment growth markets

### International Specialty – 23%

- Portfolio of Specialty business with distinctive industry positions
- Strong performance track record
- 80% of business achieving pricing increases

### U.S. Commercial Lines – 26%

#### Small Commercial

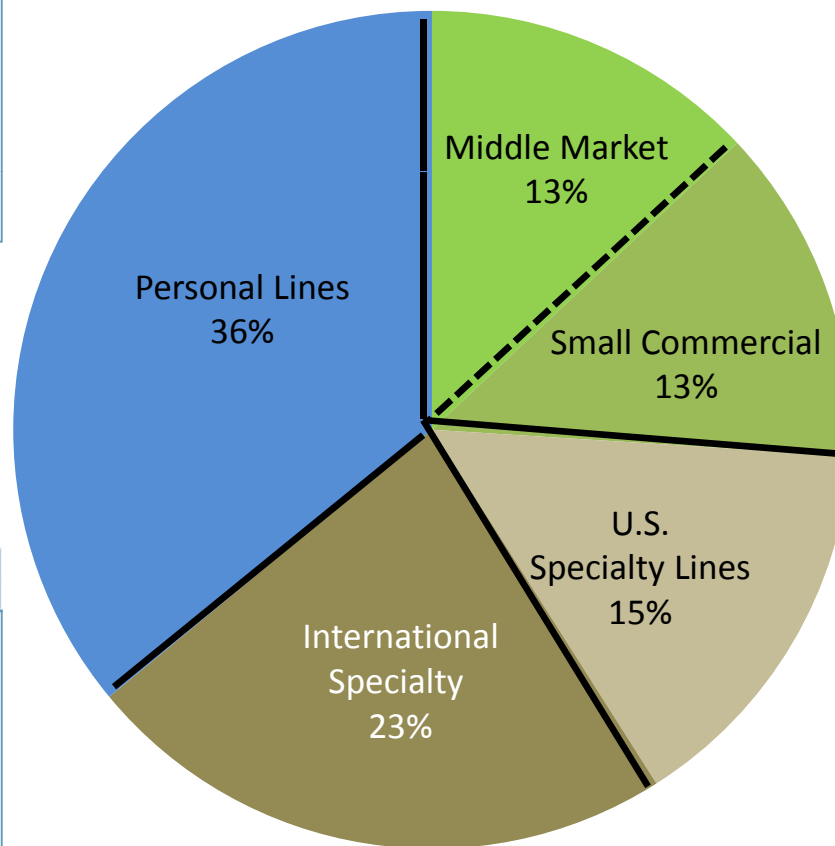
- Building leading position for Main Street accounts
- Unique operating model positioned for consolidation

#### Middle Market

- Distinctive industry solutions for lower-end middle market
- Franchise value driving significant share shift

### U.S. Specialty – 15%

- Strong portfolio of attractive Specialty lines
- Operating model geared to enhance retail agent economics



**\$4.1 Billion\***

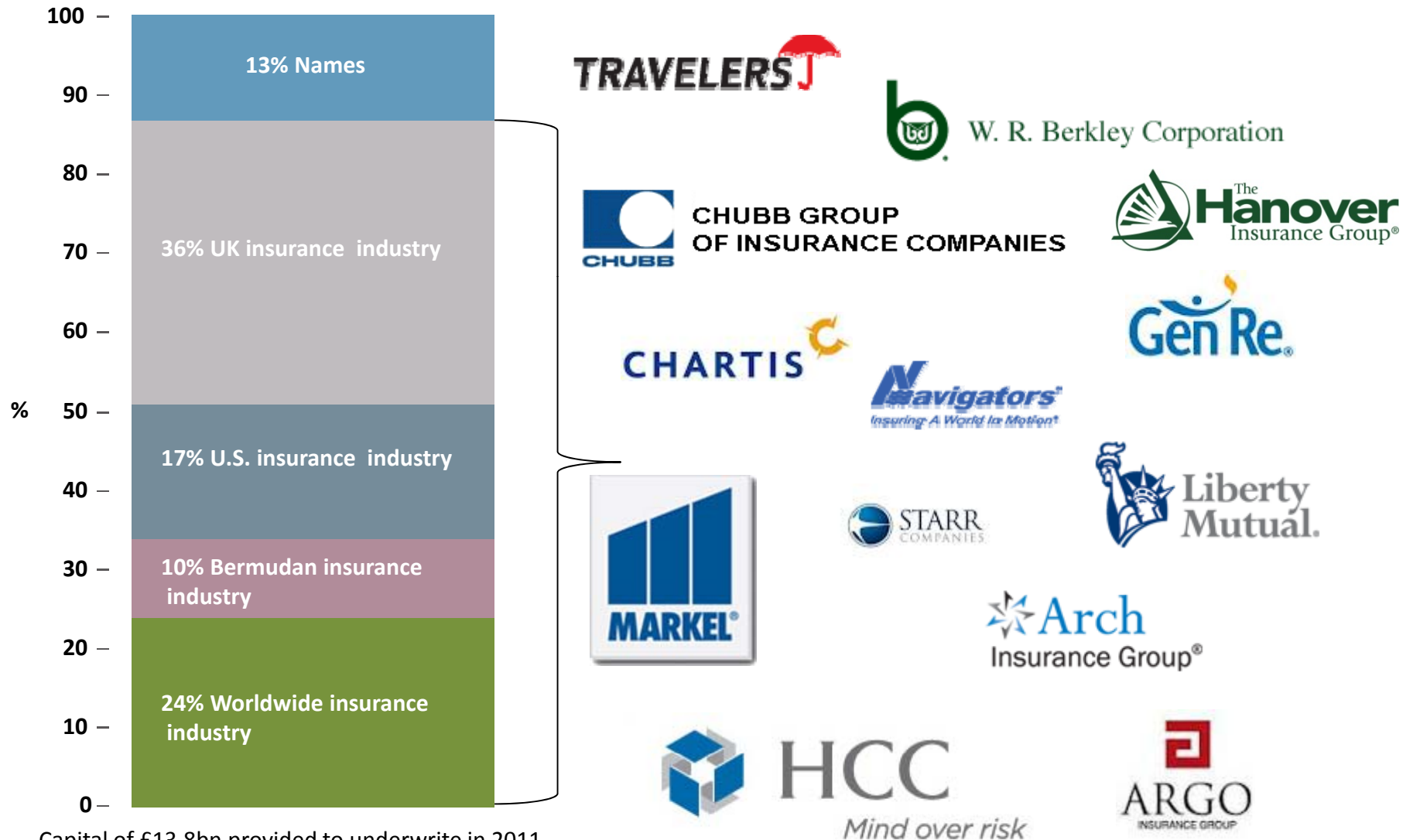
\* Net written premium with Chaucer annualized

## Chaucer Adds A Very Distinctive Part To Our Platform

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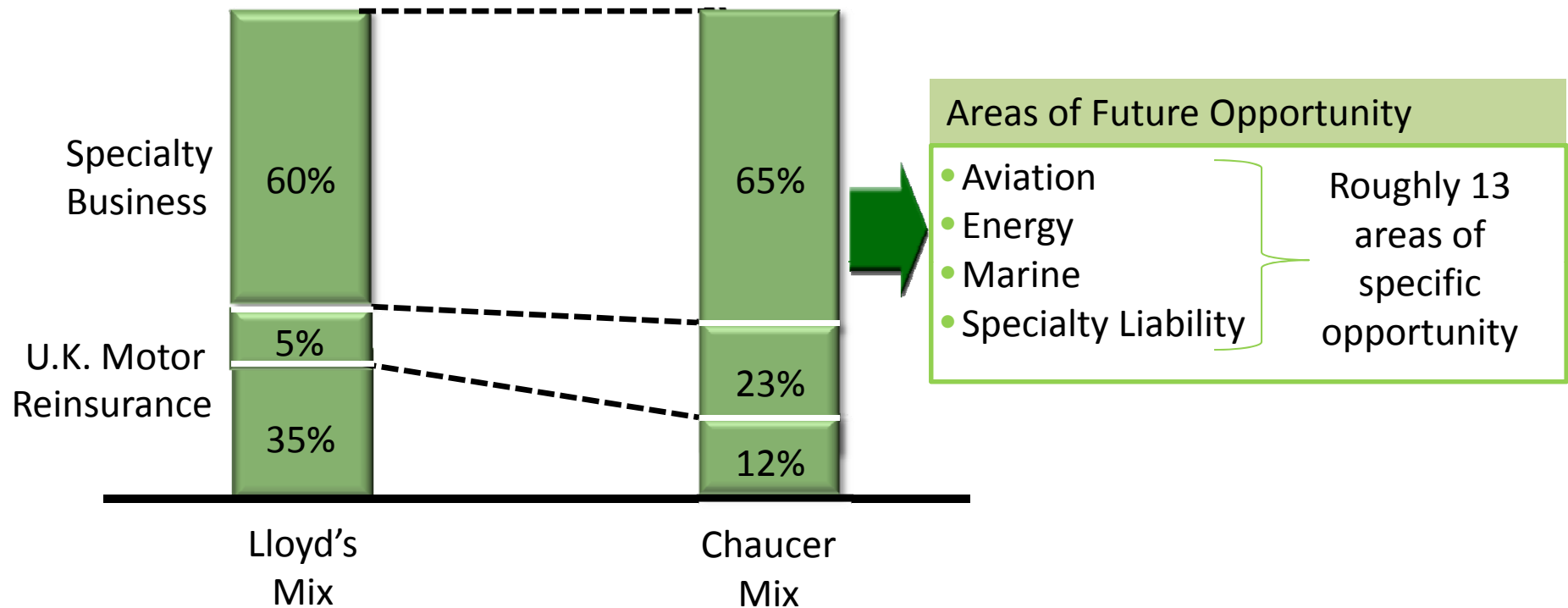
- Strong underwriting franchise in attractive areas of Specialty Lines that we can grow (attractive track record)
- Significant expertise can diversify our business mix and earnings scale
- Access to Lloyd's and a very capital-efficient operating model offers additional future opportunity

# Lloyd's Has Become Strategically Important To Major U.S. Insurers





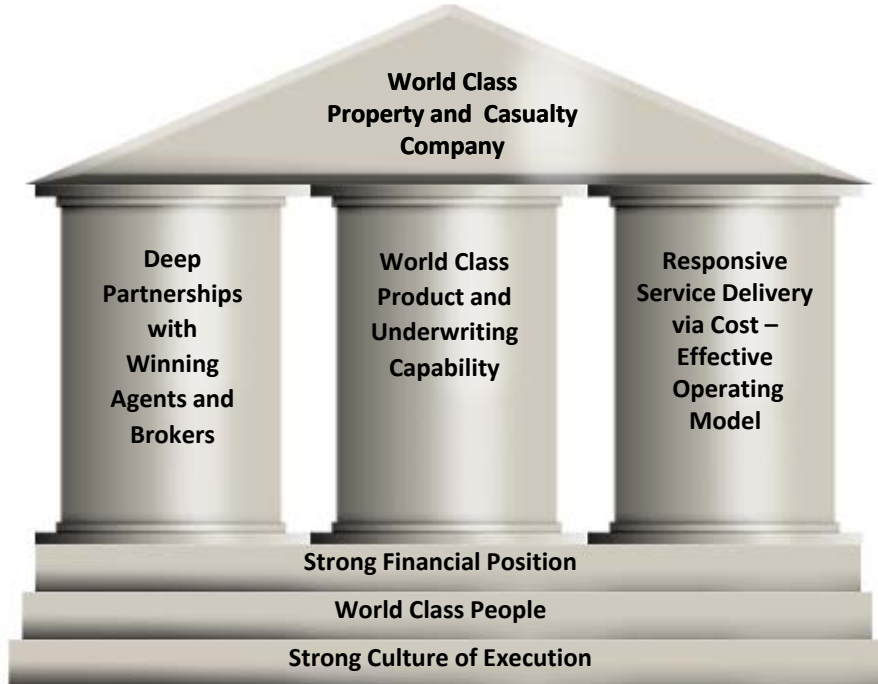
# Chaucer Is The Right Fit For Our Focus



- Strong cross-cycle ROE
- Smaller reinsurance position
- Specialty focused; in attractive segments
- Focus areas of expertise more leveragable
- Strong, stable team

# Our Vision Leads To Preferred Shelf Space

## Our VISION



## THE HANOVER PROMISE



**Strong Value Proposition To Agent Partners**

# Driving Momentum With The Best Retail Agents

## THE HANOVER PROMISE

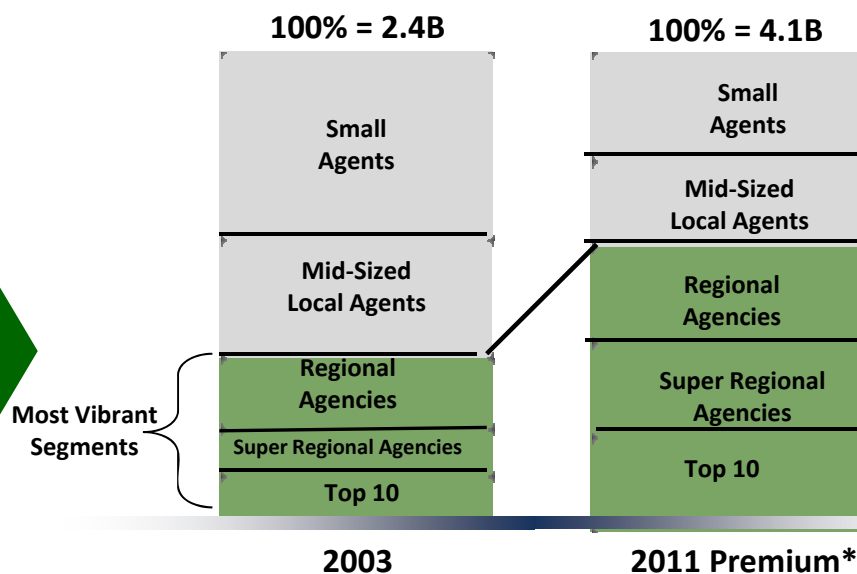


**The Best Partner Because:**

- I. Intense Focus on Product Innovation (Industry Solutions)
- II. True Commitment to Partnership (Franchise Value)
- III. Unparalleled Local Responsiveness and Expertise

**Value Proposition**

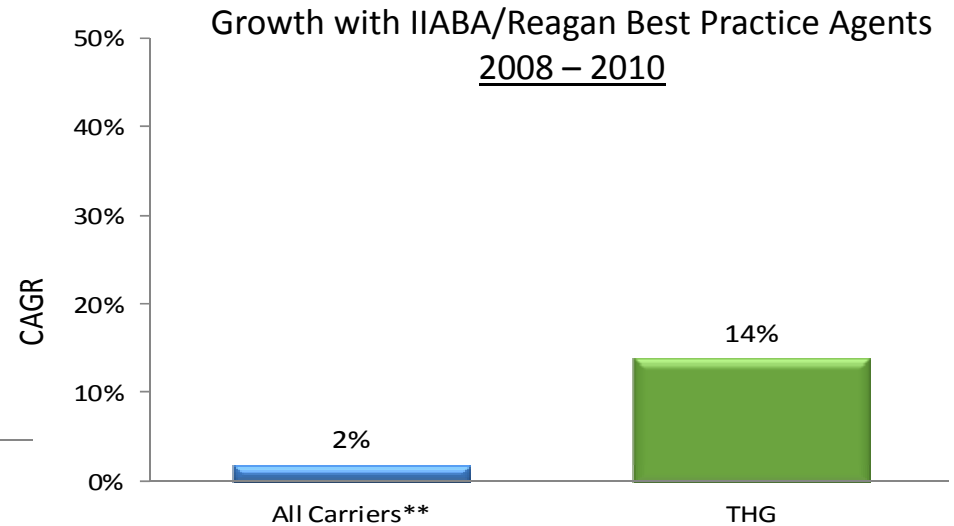
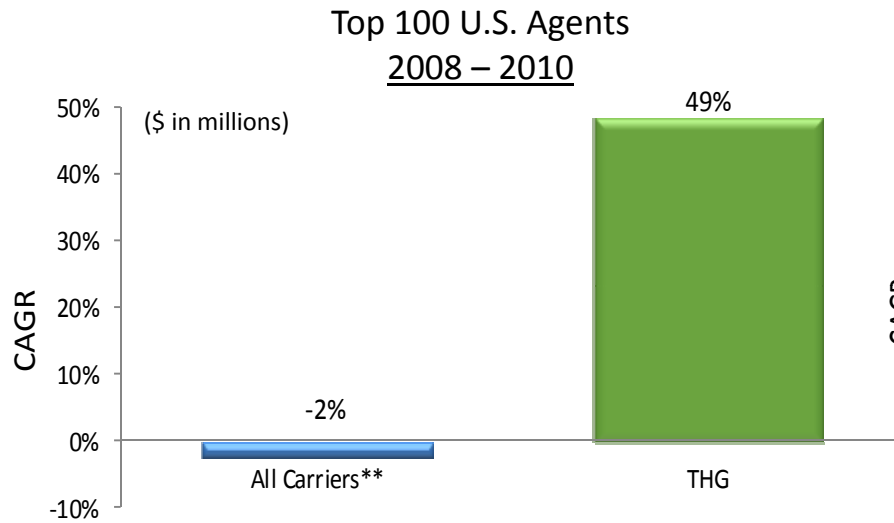
## Agent Segments Penetration



**Share Shift With Best Agents**

\* Net written premium, 2011 with Chaucer annualized

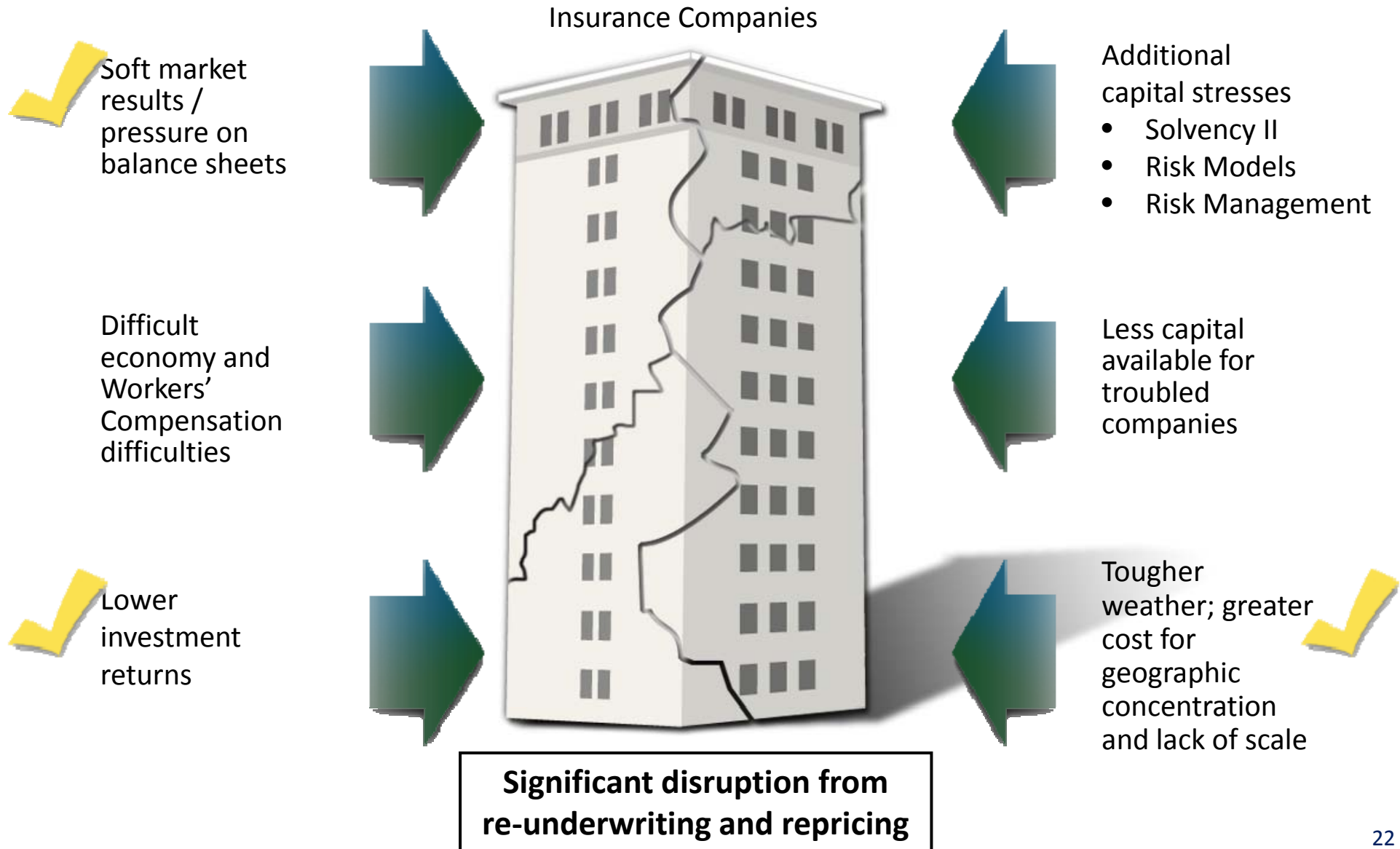
# Best Agents In the Country Responding



Driving Share Increase With  
Best Agents

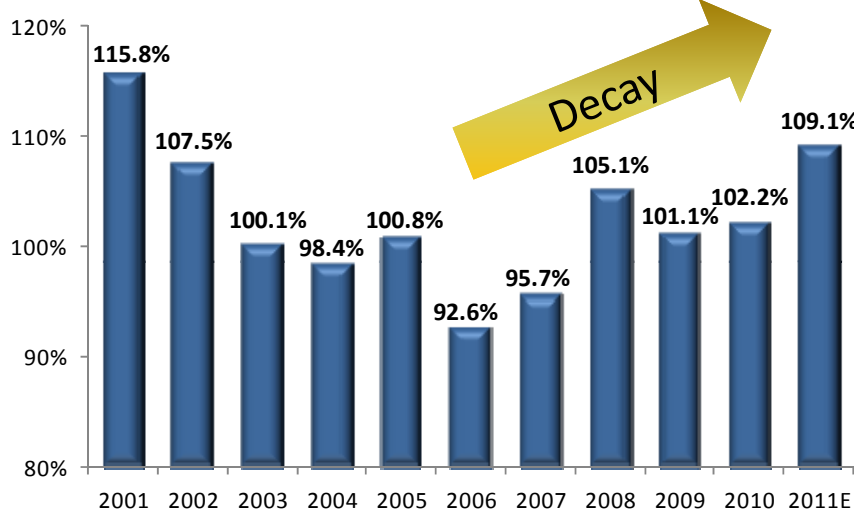
# *Industry Dynamics*

# Carriers' Stress Will Create Opportunities



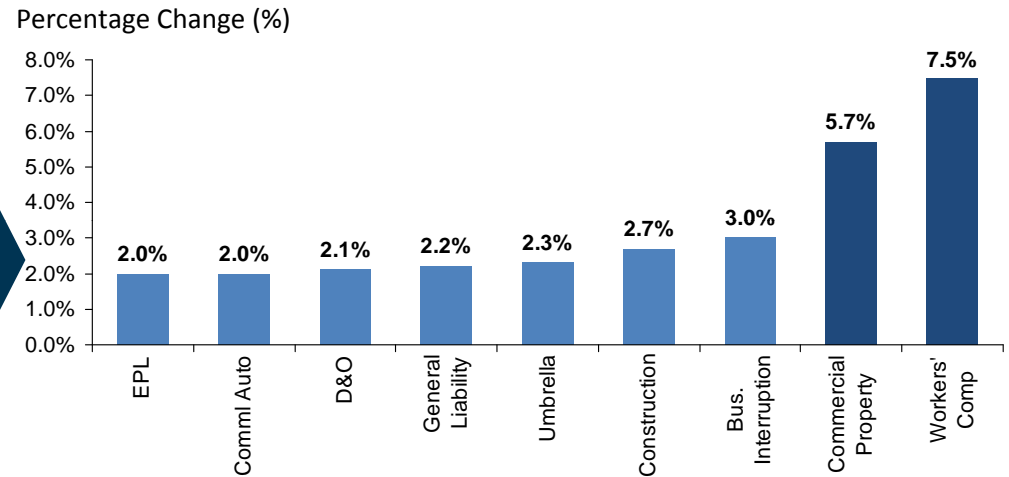
# Changing Market Beginning To Drive Pricing and Re-Underwriting

Decaying Industry Performance



Source: Dowling Model Book, March 2012.

Changing Pricing Environment  
% Price Increases 2011 Q4 Over 2010 Q4

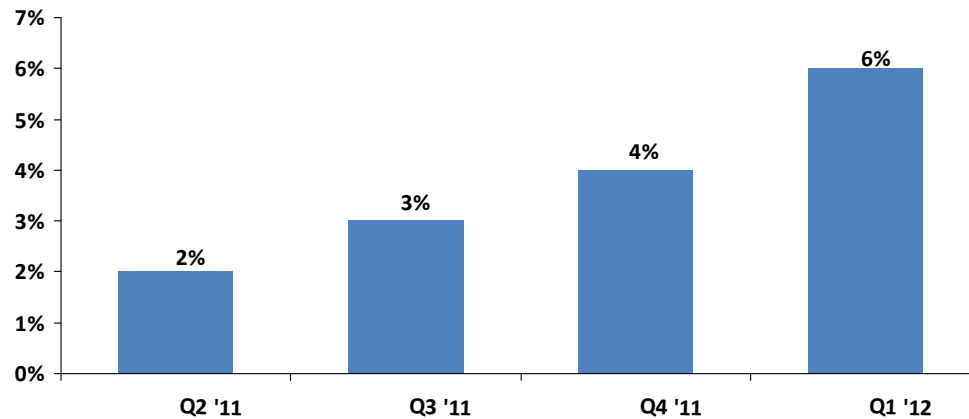


Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

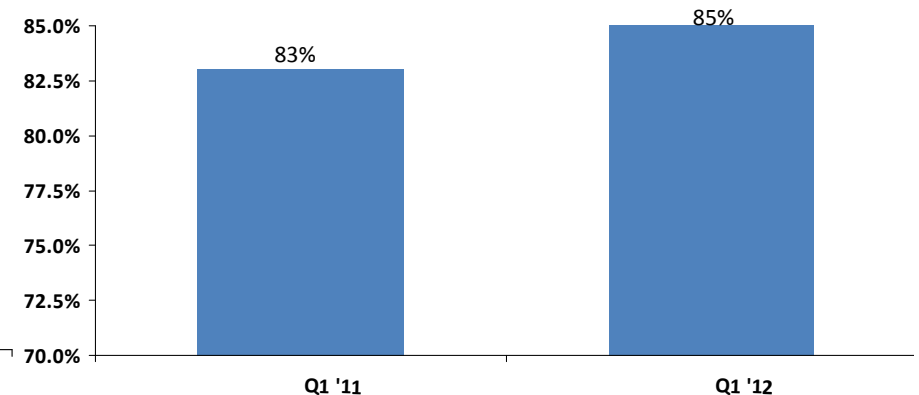
# Well Positioned For Financial Improvement And Profitable Growth

- We are very well positioned to capitalize on this disruption
  - Broad product portfolio with strong underwriting capabilities
  - Very attractive business mix and significant pricing leverage
  - Strong position with “Top 1,000” agents with growing momentum
  - Strong financial flexibility

Hanover Renewal Pricing: Commercial Improving

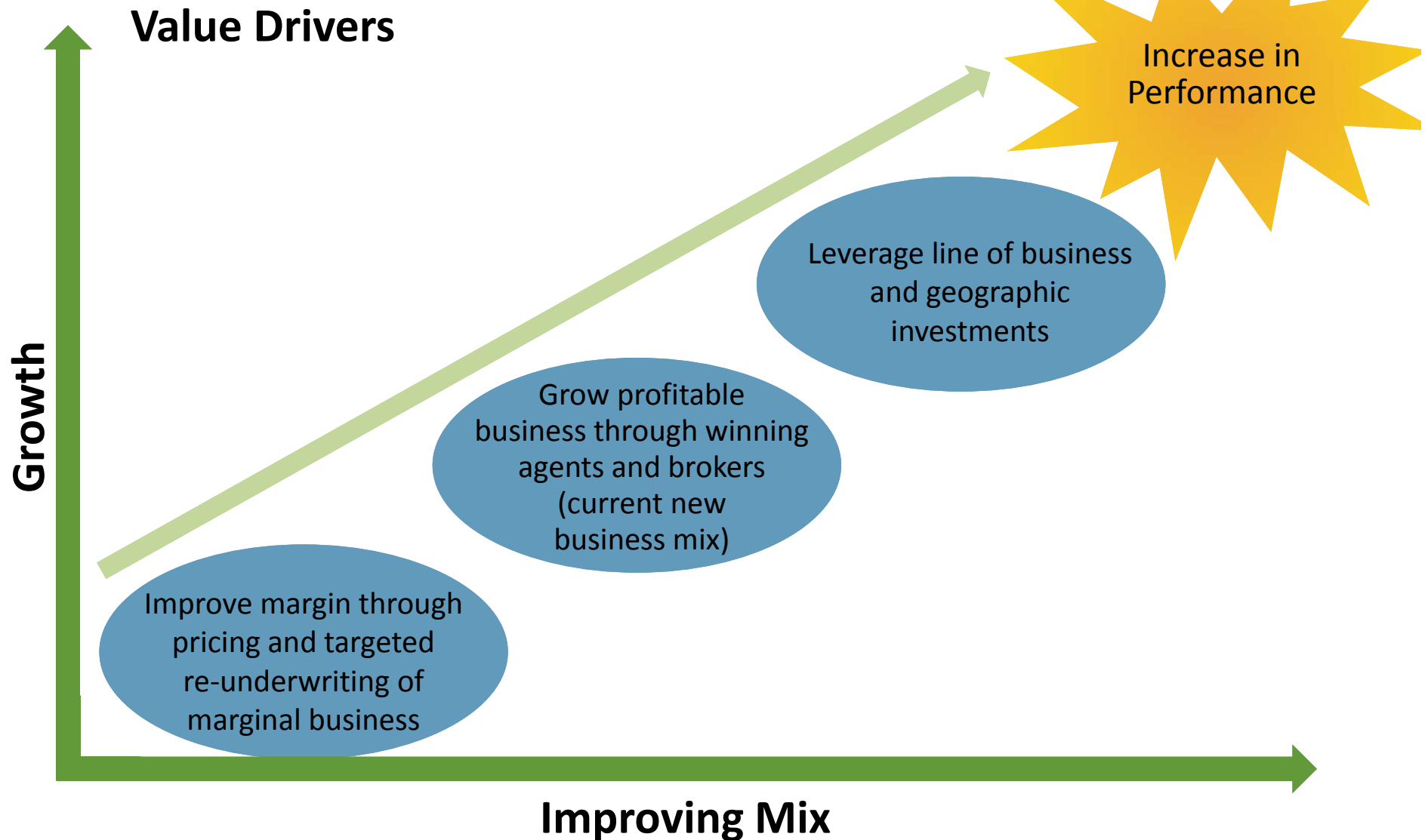


Retention: Commercial Improving





## Significant Opportunity To Improve Performance Over Next 18 – 24 Months



## Summary

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- Challenging time in our industry
- But, disruption causes great opportunity for those that are financially strong and bring distinctive value to the market
- While 2010 and 2011 brought challenges, we demonstrated our financial strength and continued to build our distinctive position
- Chaucer transaction further enhances our scale, geographic and product diversity, propelling us toward our long-term goals
- Our objective over the next 12 to 18 months is to create an even more valuable franchise by delivering our enhanced capabilities to independent agents, improving our financial strength and position, and creating value for our shareholders

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# Thank You

