



# The Hanover Insurance Group, Inc.

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## Chaucer: An Attractive Opportunity to Advance Our Journey April 20, 2011

To be used only in conjunction with the conference call to  
be held at 9:00 a.m. ET on April 20, 2011

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# Forward-Looking Statements; Non-GAAP Financial Measures; and UK Responsibility Statement

Forward-Looking Statements/Non-Solicitation: This presentation (including the conference call which this presentation accompanies) relates to a proposed acquisition of Chaucer Holdings PLC ("Chaucer") by The Hanover Insurance Group, Inc. ("The Hanover" or "the company"). The proposed acquisition is subject to a number of conditions, including approval by resolution passed at a Court-convened meeting of Chaucer shareholders by a majority in number of shareholders representing 75% in value of shareholders present and voting either in person or by proxy at the meeting. The proposed acquisition is also subject to receipt of certain anti-trust clearances and certain regulatory approvals and requires the sanction of the High Court in England. There can be no assurances that the proposed acquisition will be consummated or if it is, that The Hanover will realize the potential benefits of such acquisition.

The proposed acquisition is to be effected by 440 Tessera Limited ("Tessera"), a wholly-owned subsidiary of The Hanover, in accordance with the UK Takeover Code and the terms and conduct of the proposed acquisition will be subject to the jurisdiction of the UK Takeover Panel. The proposed acquisition will be recommended to Chaucer shareholders by the Board of Directors of Chaucer, although such recommendation may in certain circumstances be withdrawn. This presentation is not intended to and does not constitute, or form part of, the solicitation of votes or approvals in any jurisdiction. This presentation summarizes certain information contained in the formal announcement relating to the proposed acquisition, and is qualified in its entirety by that announcement.

Certain statements in this presentation, including responses to questions after our prepared remarks, constitute forward-looking statements for purposes of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These forward looking statements include statements about the likelihood of the acquisition being consummated, the expected benefits of such acquisition and comments regarding prior guidance of 2011 full-year expectations. In particular, statements about the future economic performance, finances, earnings, profitability, premium growth, strategic plans and prospects of The Hanover and Chaucer, both individually and on a consolidated basis, future expected accretion to earnings or to return on equity, consolidated premiums, the availability of products to The Hanover distribution channel, product- geographic- and account- based mix changes, estimates of first quarter catastrophe losses and segment income after tax per share, future financial strength and credit ratings (including anticipated actions of rating agencies in response to the proposed transaction), projections of combined ratios, loss ratios and expense ratios, the ability to raise future capital or debt to fund the proposed acquisition and the terms thereof, sufficiency and availability of capital and liquidity, future management and the ability to retain personnel at The Hanover and at Chaucer, reserve adequacy, the ability to increase the investment yield on the Chaucer investment portfolio, financial leverage ratios and the ability to decrease such leverage as a result of adding future earnings to our capital base, the expectation of less volatile underwriting results in a combined entity, the flexibility to more efficiently manage capital and the anticipation of ongoing regulatory approvals and licenses to conduct business, are all forward-looking statements. In addition, use of the words "would", "believes," "anticipates," "expects," "projections," "outlook," "should," "could," "hope", "plan," "confident," "guidance," "on track to," "promise," "line of sight" and similar expressions is intended to identify forward-looking statements.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or suggested by such statements. Any forward-looking statements are based on The Hanover's and Chaucer's current plans, estimates, forecasts, projections and expectations. The company cautions investors that forward-looking statements are not guarantees of future performance, and actual results could differ materially. Investors are directed to consider the risks and uncertainties in our business and in Chaucer's business that may affect future performance and that are discussed in readily available documents, including, with respect to The Hanover, the company's Annual Report to Shareholders on Form 10-K and other documents filed by The Hanover with the Securities and Exchange Commission ("SEC"), which are available at [www.hanover.com](http://www.hanover.com) under "Investors", and with respect to Chaucer, the documents available at [www.chaucerplc.com](http://www.chaucerplc.com) under "Investors" and the documents regarding Chaucer which are available for public inspection via the UK National Storage Mechanism. Except where it is required by law, we undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

Risks and uncertainties relating to the proposed acquisition include risks that the parties will not obtain the requisite shareholder, court, regulatory and other approvals for the transaction or that other conditions to which the transaction is subject may not be satisfied, or that the parties will otherwise fail to consummate the transaction; The Hanover is unable to obtain financing for the transaction or on the terms expected; the anticipated benefits of the transaction will not be realized; financial strength or debt credit rating services will reduce their outlooks or ratings for The Hanover or Chaucer; The Hanover will not be able to retain key personnel from Chaucer; the possibility of adverse catastrophe experience (including terrorism) and severe weather; 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 The Hanover);

(cont'd on next slide)

# Forward-Looking Statements; Non-GAAP Financial Measures and UK Responsibility Statement

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 the impact on Lloyd's Syndicate 1176; risks relating to the collectability of reinsurance; risks of operating internationally; unknown liabilities at the company or Chaucer; significant transaction costs; the uncertainties in estimating property and casualty losses and therefore the difficulty of ensuring adequacy of reserves for past periods, particularly with respect to longer-tail products, which are written by both The Hanover and Chaucer, and with respect to assumed reinsurance liabilities, such as are written by Chaucer; the ability to increase or maintain certain property and casualty insurance rates (including with respect to UK motor business); the impact of new product introductions; adverse loss development; changes in frequency and loss trends; the ability to improve renewal rates and increase new property and casualty policy counts; underwriting capacity; adverse selection in underwriting activities; investment impairments; heightened competition (including rate pressure); adverse and evolving state, federal and, with respect to Chaucer or the proposed combined companies, foreign, legislation or regulation; adverse regulatory or litigation actions; exchange rate fluctuations which could affect the cost of the proposed purchase to The Hanover or the reported results of the proposed combined company, as measured in United States dollars; interest rate, credit market and other investment-related fluctuations; the impact on Chaucer of capital requirements under European Union Solvency II regulations; and general macro risks of the uncertain economic environment and various other factors. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made.

As a specialist 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 exposure to currency risks and fluctuations as a significant proportion of Chaucer's business is conducted in various currencies; 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; 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 US site risks it underwrites.

This presentation is provided for informational purposes only. It does not constitute a solicitation or an offer to sell any debt or other securities of The Hanover or of Chaucer.

**Non-GAAP Financial Measures:** The discussion in this presentation regarding the proposed acquisition of Chaucer and of The Hanover's financial performance or estimates include references to certain financial measures that are derived from generally accepted accounting principles, or GAAP, such as segment income after tax per share. Segment income after tax per share is defined as income from continuing operations, excluding the after-tax impact of net realized investment gains (losses) and gains(losses) on the retirement of debt for a period divided by the average number of shares outstanding for that period. The definition of other financial measures and terms can be found in the Annual Report in Form 10-K on pages 77-79.

The Hanover believes that measures of segment income after tax per share and other metrics provide investors with valuable measures of the performance of the company's ongoing business because they highlight income from continuing operations attributable to the core operations of the business.

Income from continuing operations (per share) is the most directly comparable GAAP measure for segment income after tax per share. Non-GAAP measures should not be construed as substitutes for income from continuing operations per share, net income or other GAAP measures. See company's Form 8-K filed with the SEC on April 20, 2011 for a reconciliation of estimated segment income after tax per share to estimated income from continuing operations per share.

Information relating to Chaucer is derived from its publicly available information. Unless otherwise indicated, financial information regarding Chaucer is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by International Financial Reporting Interpretations Committee (IFRIC).

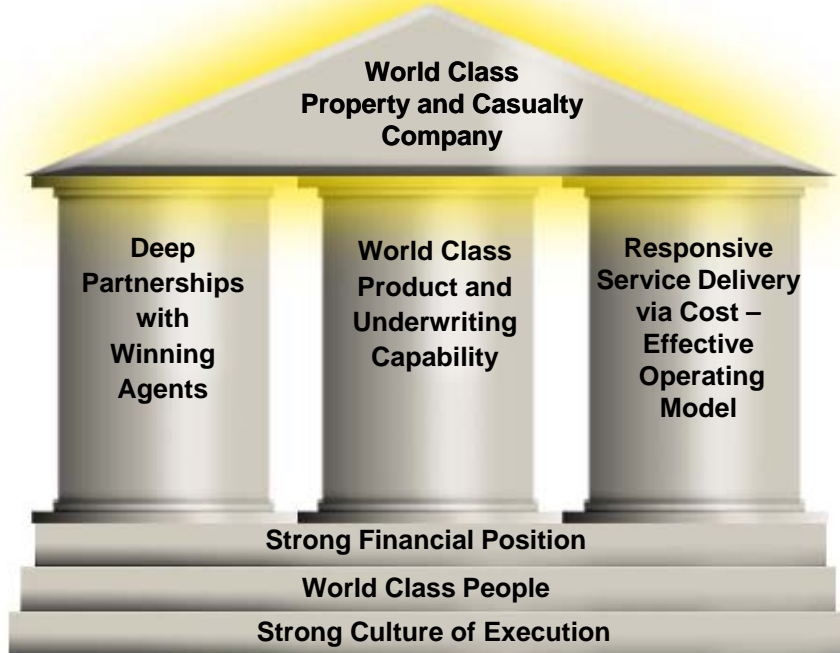
**Responsibility Statement Under United Kingdom Rules of the Takeover Panel:** The Hanover Directors and the Tessera Directors (all of whose names will be set out in the Scheme Circular filed under rules of the UK Takeover Panel) accept responsibility for the information contained in this announcement relating to Hanover, The Hanover Group and themselves and their immediate families, related trusts and connected persons. To the best of the knowledge and belief of The Hanover Directors and the Tessera Directors (who have taken all reasonable care to ensure that such is the case), such information for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

# Chaucer: An Attractive Opportunity to Advance Our Journey

- Acquisition of Chaucer is an important step forward in our journey to build a world-class property and casualty company
- Chaucer is an attractive acquisition opportunity which we regard as one of the best-run franchises at Lloyd's:
  - Strong, consistent track record of underwriting profitability
  - Balanced business mix
  - Significant market opportunities
  - Highly-experienced management and underwriting team
- Strategic benefits of the Chaucer acquisition:
  - Scale, geographic and earnings diversification; a broadened market position
  - Enhanced product and underwriting capabilities which will further our stated specialty strategy
  - Chaucer's product suite will advance our partner agent strategy by strengthening our position with sophisticated retail distributors
- The Lloyd's platform further supports our strategic objectives by providing international licenses, sophisticated non-admitted business and the ability to syndicate risk
- Attractive financial benefits:
  - Expected to be accretive to earnings and ROE
  - Diversification
  - Strong balance sheet

# Our Goal Remains The Same – Creating A World Class Property and Casualty Company

## OUR VISION



### Strategic and Financial Priorities:

- More balanced product and geographic mix
  - Targeting one-third Personal Lines, one-third core Commercial Lines and one-third Specialty business
- Profitable growth through property and casualty pricing cycle (target 11-13% enterprise ROE through cycle)
- Distinctive product mix delivered to winning agents and brokers:
  - Much more “specialty-oriented” product mix
  - Focus on product innovation to give agents and brokers direct access to most sophisticated insurance offerings
  - Preferred shelf space with winning agents and brokers; those who are consolidating markets

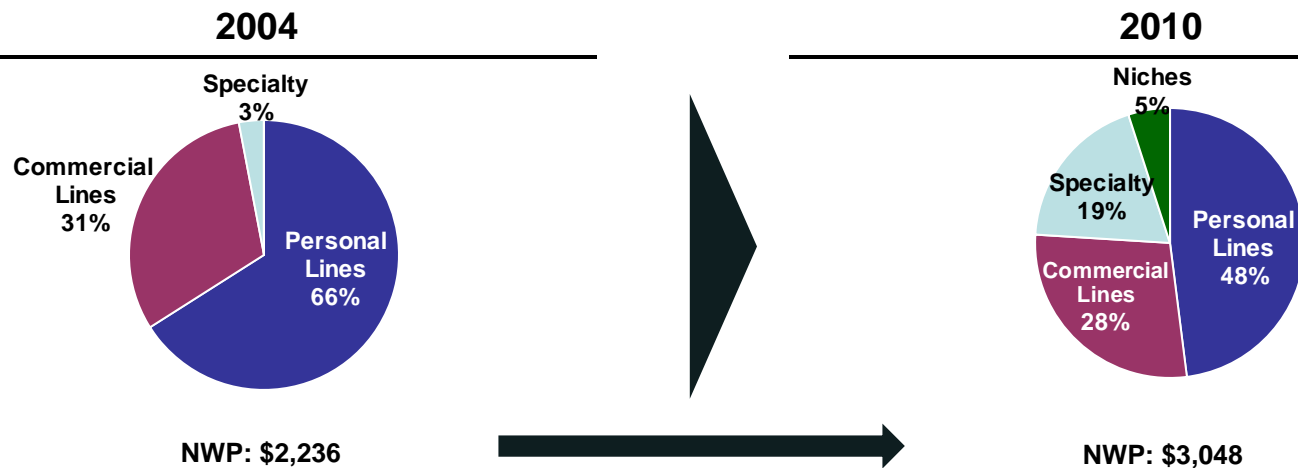


# We Made Important Progress on All Critical Strategic Levers

- Improved financial strength**
  - ✓ Highest-ever book value per share (at December 31, 2010)
  - ✓ Industry-leading growth; ex-cat reported accident year loss ratios best in four years
  - ✓ Strong balance sheet
  - ✓ Significantly improved cost of capital
  
- Enhanced Product Mix And Distinctiveness**
  - ✓ Dramatically improved product portfolio
  - ✓ More distinctive and diversified product offering
  - ✓ Significant specialty capabilities
  
- Built Strong Position With Partners**
  - ✓ Position with winning agents and brokers strong and growing significantly
  - ✓ Responsiveness and expertise aligned to improve agency economics
  - ✓ National footprint established

## Hanover Business Mix Evolution 2010

(\$NWP in millions)



Note: For information on sources of all information on this page and in the remainder of this presentation, please refer to Appendix.

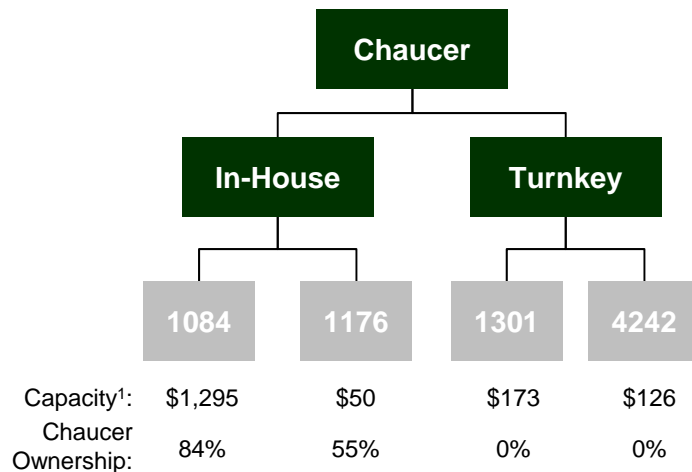
# Chaucer: a Leading Specialist Lloyd's Insurance Group

## Business Overview

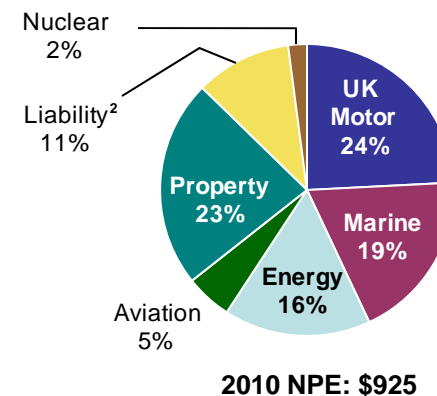
- Specialist Lloyd's based insurance company founded in 1922 and top ten managing agent at Lloyd's
- Core strategy is founded upon:
  - Underwriting excellence
  - International growth through access to local markets
  - Maintenance of capital strength
- Over \$900 million in net premiums earned in 2010
- Writes business in all major insurance and reinsurance classes
- Leading provider of Lloyd's "turn-key" solutions for new syndicate start-ups
- Headquartered in London, with operations in Whitstable (England), Copenhagen, Houston, Buenos Aires and Singapore

## Syndicate Structure

(\$ in millions)



## Business Mix



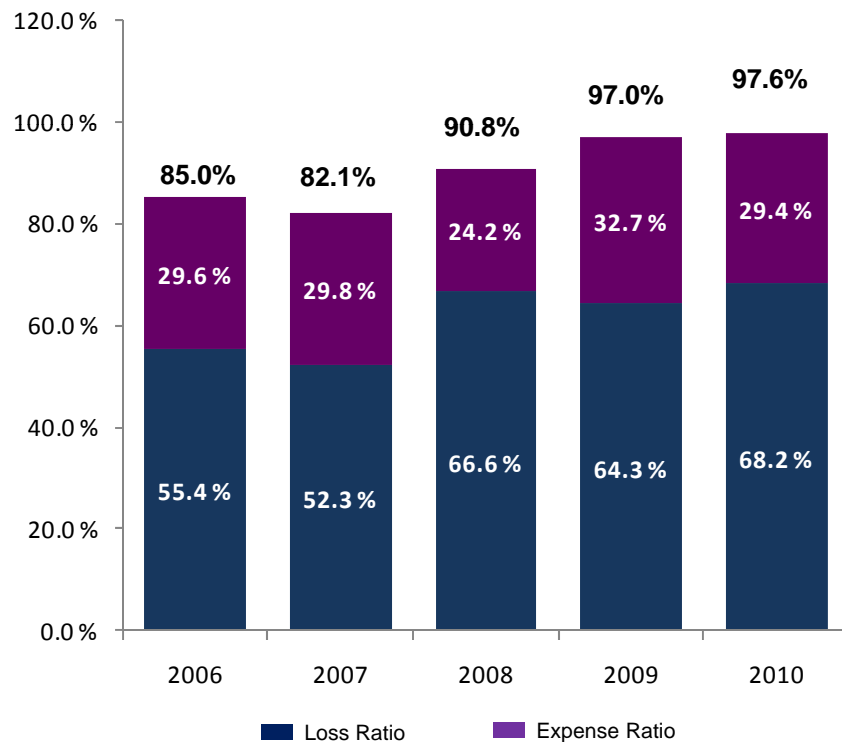
Note: Chaucer data here and further in the presentation is converted from GBP to USD at year end 2010 exchange rate of 1.57 unless noted otherwise.

<sup>1</sup> Refers to 2011 year of account Lloyd's stamp capacity. Equals gross premiums written less acquisition costs.

<sup>2</sup> Liability includes all the specialist lines at Chaucer including E&O / Direct Casualty, A&H, Medical, Financial Institutions and International Treaty.

# Dynamic Business with Proven Underwriting Record

## Combined Ratio<sup>1</sup>



## Established Operating Performance

- 5-year average combined ratio of 90.6%
- Solid underwriting results despite elevated catastrophe activity in recent years
- 5-year average ROE of 15.8%

## Solid Balance Sheet

- Consistent track record of positive reserve development
- Conservative investment portfolio
- Conservative financial leverage



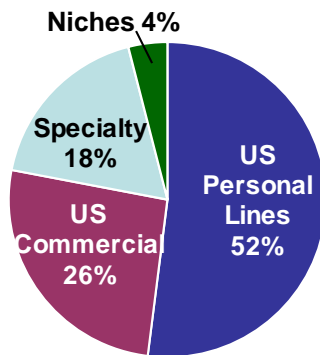
## Chaucer's Management Has Extensive Underwriting Expertise

- Chaucer has a strong underwriting culture:
  - Track record of strong underwriting results – 5-year average loss ratio of 61.3%
  - Conservative approach to risk retention and limits
  - Lead underwriter in attractive industry classes
  - Turn-key solutions provider
- Senior underwriting team brings an average of 32 years industry experience and 15 years at Chaucer with recognized expertise in numerous business classes
- Robust risk management culture
- The Hanover intends to support and develop Chaucer's longstanding leadership and proven underwriting team

# Chaucer Further Diversifies Our Business Mix and...

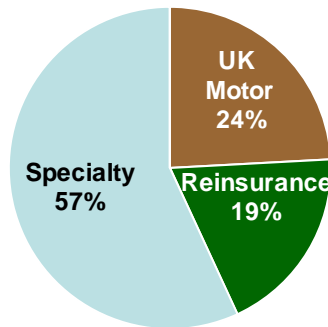
(\$ in millions)

## Hanover<sup>1</sup>



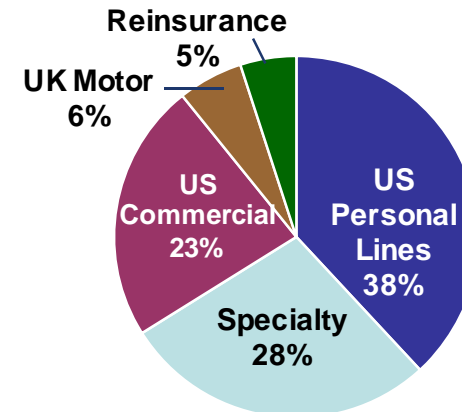
2010 NEP: \$2,841

## Chaucer<sup>2</sup>



2010 NEP: \$925

## Pro Forma



2010 NEP: \$3,766

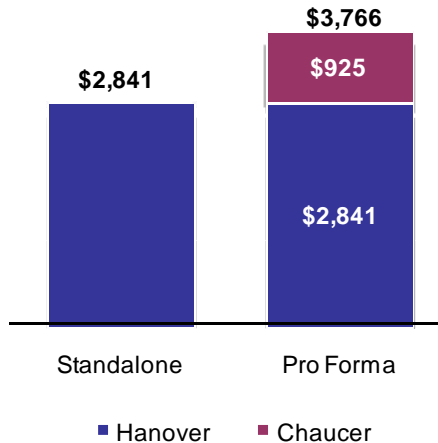
<sup>1</sup> Hanover specialty includes other commercial, including coverages such as program business, inland marine, bonds and professional liability.

<sup>2</sup> Chaucer reinsurance includes property, marine and liability treaty. Specialty includes property, liability, aviation, marine, energy and nuclear.

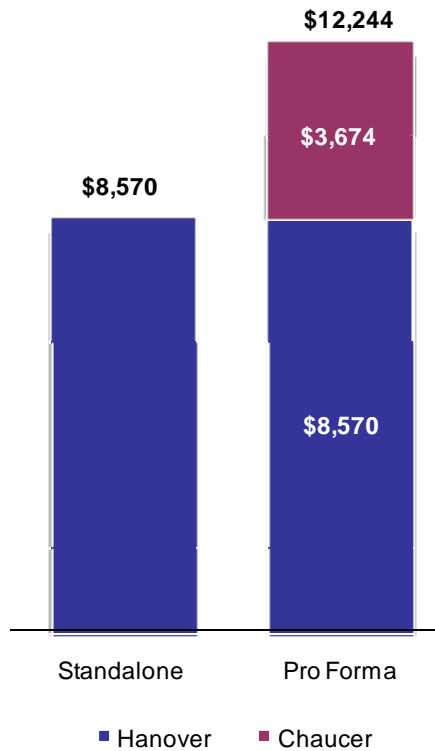
# ...Provides Greater Geographic Reach and Scale

(\$ in millions)

## 2010 NPE



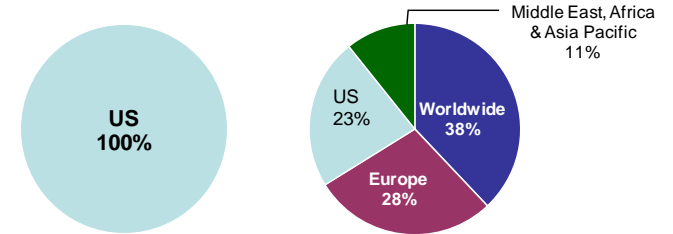
## 2010 Total Assets<sup>1</sup>



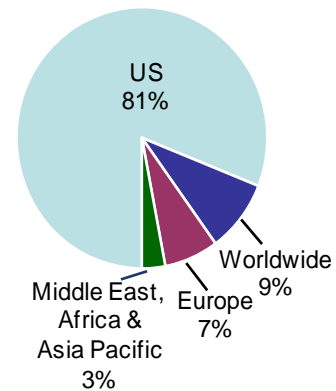
## Geographic Mix<sup>2</sup>

### Hanover

### Chaucer<sup>3</sup>



## Pro Forma



<sup>1</sup> Excludes purchase accounting adjustments.

<sup>2</sup> Based on 2010 Net Earned Premium.

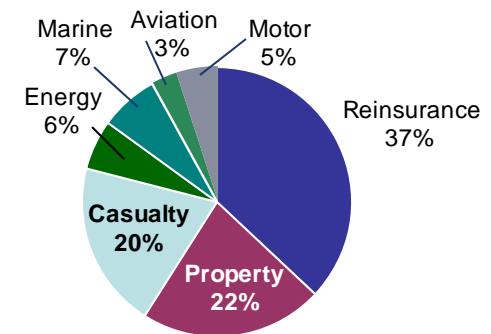
# Additive Product and Underwriting Capabilities for Our Agents and Brokers

<b>Business Class</b>	<b>Examples</b>
<b>Energy</b>	Full spectrum of smaller energy exposures covering upstream, midstream, downstream, services and renewables
<b>Aviation</b>	Property & liability in smaller private aviation / fleets and in aviation services
<b>Ocean Marine</b>	Hull and marine liability coverage for specialist craft with some potential in cargo
<b>Other Marine</b>	Protection against trade credit losses and political violence
<b>Specie</b>	Fine art, excess armored car, precious metal and vault risk

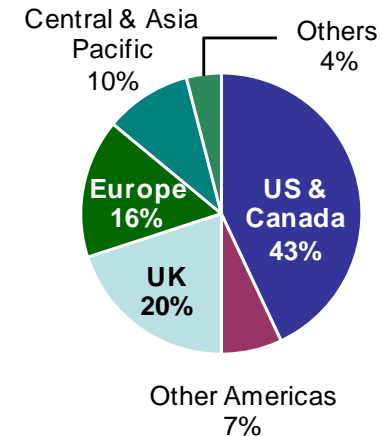
# Strategic Benefits of Lloyd's

- Lloyd's is a large, highly-diversified and well-regarded insurance marketplace
  - Leading specialist insurance market: 52 managing agents, 85 syndicates and ~£23 billion of premium in 2010
  - Strong presence to generate direct and syndicated business across a broadly diversified mix of global risks
- Attractive ratings from key agencies: A, A+ and A+ by A.M. Best, S&P and Fitch, respectively
  - Lloyd's capital strength is broadly recognized by all buyers of insurance
- Syndication of risk throughout Lloyd's market enables capital efficient operating platform
  - Lloyd's "chain of security" – provides three layers of capital backing claims
  - Lloyd's governing bodies assess risks and capital of the overall market; large risks are commonly shared
  - Exposure of any single Lloyd's participant is expressly limited to assessed capital held within Lloyd's
  - Highly efficient capital model - individual syndicates may require less capital than standalone insurers due to the mutuality of the Lloyd's capital structure

## 2010 Lloyd's Business Mix



## 2010 Lloyd's Geography Mix



# Attractive Financial Profile

## Price and Consideration

- 100% cash consideration
- 56p per share, including the 2.7p per share dividend announced by Chaucer on March 7, 2011
- Total cash consideration of £313 million (\$510 million)<sup>1</sup>

## Key Multiples

	As of Year-End 2010	
	As Reported	Adjusted for Catastrophes <sup>2</sup>
Price to Tangible Book Value Per Share (Net Tangible Assets)	1.09x	1.26x

## Financing (Combination of Cash and Debt)

- Cash of \$235 million, including \$99 million of ordinary dividend from The Hanover Insurance Company
- Anticipated new senior unsecured debt of \$250 million

## Pro Forma Impact

- Transaction is expected to be approximately 10% accretive to The Hanover's 2012 EPS and ROE

## Anticipated Steps / Timing to Close

- Transaction expected to be consummated via a UK approved "Scheme of Arrangement"
- Transaction closing anticipated in the earlier part of the third quarter
- Transaction subject to regulatory and court approvals
- Transaction requires approval at a Chaucer shareholder meeting from a majority in number of shareholders who represent 75% of the Chaucer shares voted at the meeting, in person or by proxy

<sup>1</sup> Assumes USD /GBP exchange rate of 1.63 on April 19, 2011.

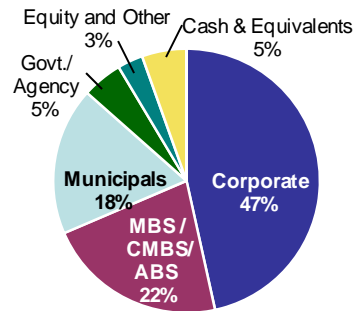
<sup>2</sup> Adjusted for Chaucer's recently announced estimated catastrophe activity in press releases dated March 14, March 18, and April 18, 2011.



# Conservative and Liquid Investment Portfolio

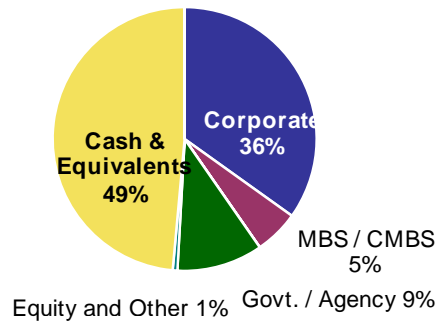
(\$ in millions, as of December 31, 2010)

## Hanover



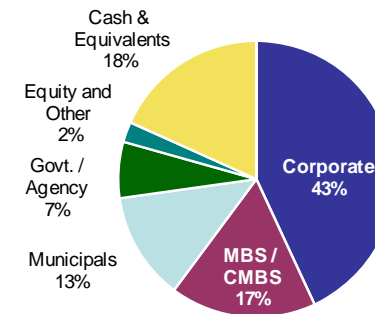
**\$5,376**

## Chaucer



**\$2,284**

## Pro Forma



**\$7,660**

### Pro Forma Year-end 2010:

- Cash and equivalents provides significant liquidity cushion
- Fixed income portfolio represents 80% of total investments
  - 94% investment grade
  - Average rating of AA-
  - Weighted average duration of ~3.6 years

## Robust Pro Forma Capitalization

- The consideration will be a mix of existing cash and new senior debt expected to be issued prior to closing
- We have obtained a financing commitment in the form of a bridge loan, which together with escrowed assets, meet UK Takeover Code requirements of “Funds Certain” at announcement

*\$ in millions*

	<u>Hanover</u>	<u>Chaucer</u>	<u>Acquisition of Chaucer</u>	<u>Hanover Pro Forma</u>
Debt at Dec. 31, 2010 <sup>1</sup>	\$594	\$64		\$658
New Senior Debt			\$250	\$250
Total Debt	\$594	\$64	\$250	\$908
Equity at Dec. 31, 2010 <sup>1</sup>	\$2,458	\$499	\$(499)	\$2,458
Total Capitalization	\$3,052	\$563	\$(249)	\$3,366
Debt/Total Capital	19.5%	11.5%	NM	27.0%

<sup>1</sup> Pro forma for subordinated debt repurchase in February (see “Recent Developments” in 2010 Annual Report) and an additional committed drawdown of \$37 million from the FHLB by January 2012.

## Strategically and Financially Attractive

- ✓ Chaucer is an attractive acquisition opportunity, which we regard as one of the best-run franchises at Lloyd's. It is expected to provide us with earnings diversification and give access to additional product capabilities
- ✓ Acquisition of Chaucer is an important step forward in our journey to build a world-class property and casualty company, enhancing our product mix, advancing our specialty strategy and strengthening our position with our distinctive partner agents
- ✓ The Lloyd's platform is an ideal vehicle to achieve our strategic objectives through access to international licenses, sophisticated non-admitted business and a capital efficient operating model
- ✓ The transaction is attractive financially given earnings and ROE accretion, diversification and the strengths of the combined balance sheet

# APPENDIX

# Data Sources

Slide #	Graph title	Source
6	Hanover Business Mix Evolution 2010	Hanover 2010 Annual Report, p. 6 and internal systems reporting
7	Syndicate Structure	Chaucer 2010 Annual Report pgs. 23 and 118 Syndicate 1301 web site: <a href="http://www.broadgateinsurance.co.uk/about.htm">http://www.broadgateinsurance.co.uk/about.htm</a> Syndicate 4242 web site: <a href="http://www.lloyds.com/Lloyds/Investor-Relations/Financial-performance/Syndicate-reports-and-accounts/2008/06/4242">http://www.lloyds.com/Lloyds/Investor-Relations/Financial-performance/Syndicate-reports-and-accounts/2008/06/4242</a>
7	Business Mix	Chaucer 2010 Annual Report p. 11
8	Chaucer Combined Ratio	Chaucer Annual Report 2010 p. 93-94; 2008 p. 101; 2006 p. 92
8	Chaucer ROE	Chaucer 2010 Annual Report pgs 67, 70 and 96; 2008 pgs. 78, 80 and 104; 2006 pgs. 74, 76 and 99
8	Chaucer Reserve Release Development	Chaucer 2010 Annual Report p. 26, 108, 2008 Annual Report p. 117, 2006 Annual Report p. 113
10	Hanover Business Mix Chaucer Business Mix	Hanover 2010 Annual Report, p. 6 Chaucer 2010 Annual Report, pgs. 11 and 27
11	Hanover NPE Chaucer NPE	Hanover 2010 Annual Report, p. 6 Chaucer 2010 Annual Report, p. 93
11	Hanover Total Assets Chaucer Total Assets	Hanover 2010 Annual Report, p. 81 Chaucer 2010 Annual Report, p. 95
11	Chaucer Geographic Mix	Chaucer 2010 Annual Report, p. 95
13	Lloyd's Managing Agents and Syndicates Lloyd's 2010 Premium	Lloyd's 2010 Annual Report , "Lloyd's Vision" p. 7 Lloyd's 2010 Annual Report "Lloyd's Vision" p. 3
13	Lloyd's Business Mix	Lloyd's 2010 Annual Report, p. 3
13	Lloyd's Geographic Mix	Lloyd's 2010 Annual Report, p. 2
15	Hanover Investment Portfolio	Hanover 2010 Annual Report, p. 55
15	Chaucer Investment Portfolio	Chaucer 2010 Annual Report, p. 31
16	Hanover Debt Hanover Equity Hanover Total Capitalization Hanover Debt/Total Capital	Hanover 2010 Annual Report, p. 81
16	Chaucer Debt Chaucer Equity Chaucer Total Capitalization Chaucer Debt/Total Capital	Chaucer 2010 Annual Report, p. 70 Chaucer 2010 Annual Report, p. 69 Chaucer 2010 Annual Report, p. 70