



Bank of America Merrill Lynch Insurance Conference

The Hanover Insurance Group (THG)

February 14, 2013

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,” “on the right path to” 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; guidance on 2013 segment income per share and outlook for 2014; outlook on the market and economic conditions; Personal and Commercial Lines profitability improvement, including with respect to surety, auto liability and personal injury and AIX; the pricing environment and the company’s ability to increase rates in domestic P&C and in Lloyd’s businesses; the impact of foreign exchange fluctuations; 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, segment income and earnings volatility; GAAP and accident year loss and combined ratios; expense ratio and expense improvements from improving scale; the ability to improve profitability, earnings growth and returns; return on equity and near-term return on equity goals; adequacy of capital to rating agency expectations; product margins and margin improvement, including with respect to auto lines of business; expected profitability and contribution of Chaucer Holdings plc (“Chaucer”) to consolidated earnings; net investment income and the effect of lower yields on future net investment income; product- geographic- and account- based mix changes on future growth and profitability; and may also include forward looking statements on underwriting conditions, capital levels, ratings, the number of shares outstanding, investment impairments and net investment income.

The company cautions investors that neither historical results and trends nor forward-looking statements are guarantees of or necessarily indicate 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 February 6, 2013 and the Annual Report and other documents filed by The Hanover with the Securities and Exchange Commission, which are available at www.hanover.com under “About Us - Investors.” We assume no obligation to update this presentation, which, unless otherwise noted, speaks as of December 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 in excess of loss trends, 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, and those risks inherent in Chaucer’s business.

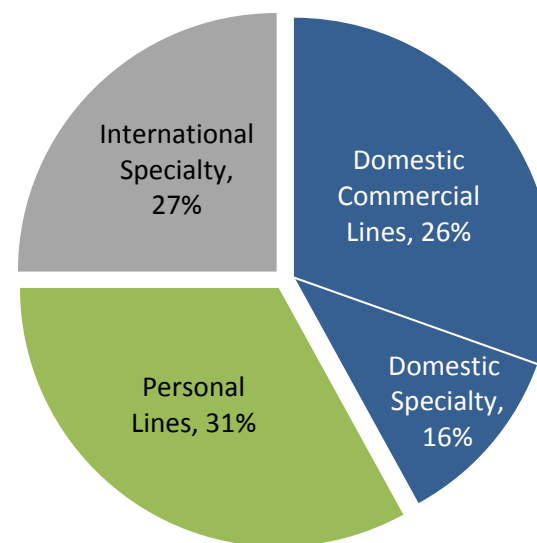
Basis of Presentation: Prior periods were restated for the effect of the company’s adoption of the new Deferred Acquisition Cost (“DAC”) guidance. See Book Value and Other Items on page 8 of the press release dated February 6 for more detail.

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 nearest GAAP measure, total loss ratio and combined ratio, is found on pages 7, 10 and 13 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 2011 Annual Report on pages 80-82.

THG Company Information

Exchange/Ticker	NYSE: THG
Share price (at 2/8/2013)	\$41.80
Shares outstanding	44.3 million
Market cap	\$1.9 billion
Annual dividend per share	\$1.32
	Yield: 3.2%
GAAP Equity	\$2.6 billion
Total Capital	\$3.4 billion
Book value per share	\$58.59

\$5B in Gross Written Premium



2012

We are a national company with global reach



★ Domestic:

- Commercial and specialty business countrywide
- Personal Lines business primary in states east of the Mississippi River

★ Chaucer:

- International operations through Lloyd's, headquartered in London, with offices in Whistable (U.K.), Copenhagen, Singapore, Buenos Aires, and Houston

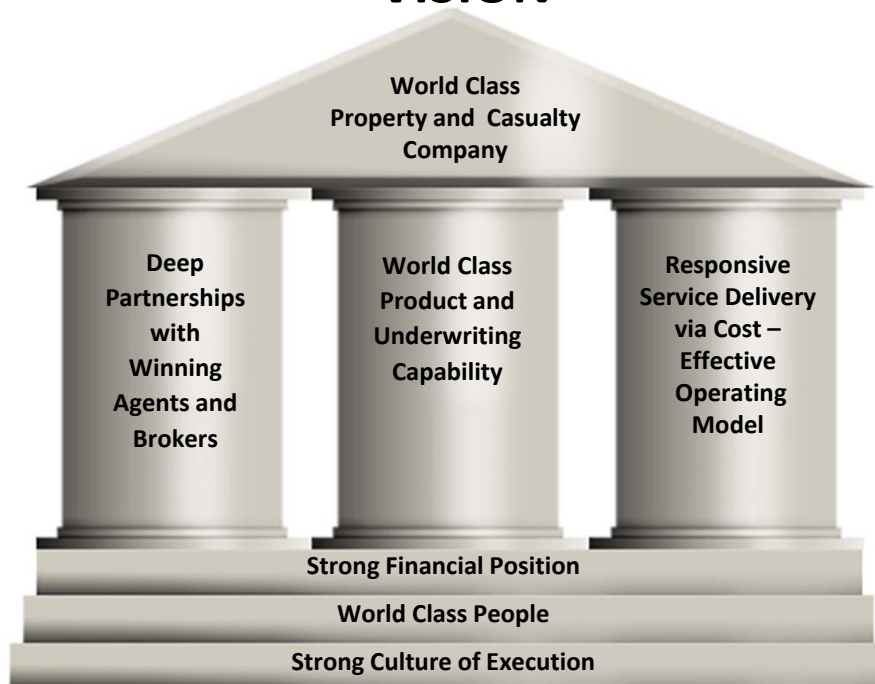
Overview

- Today, our market position is the strongest it's ever been. We have:
 - Balanced business: diversified geographically and by product
 - Distinctive, value-oriented offering in every business, which is difficult to replicate
 - Strong position with best agency plant, providing a mutually beneficial value
- Our financial position is flexible and stable with stronger embedded earnings power
- 2012 was a year of transition: we made meaningful improvements to business mix, positioning our portfolio for improving results
- Pulling strategic levers to improve returns in 2013 and beyond:
 - Driving pricing power
 - Leveraging expense improvements in Commercial Lines
 - Shifting to higher margin business & segments
 - Earnings resiliency and diversification
 - Aggressively managing exposure and business mix

Investment thesis: We are building our business to deliver top quartile performance

We remain focused on building A World Class Company

Our VISION

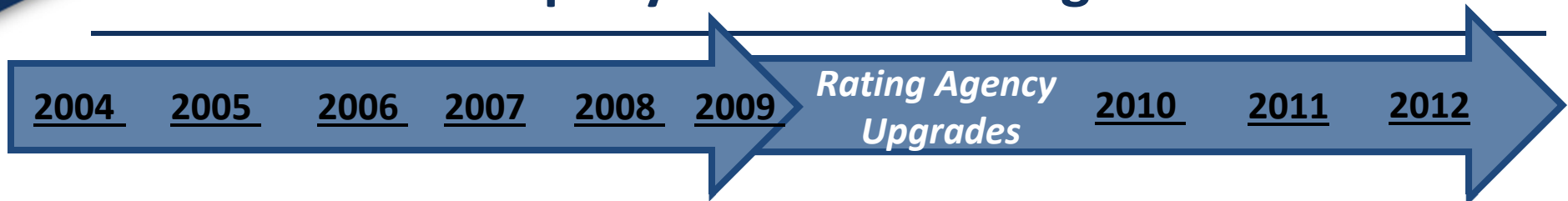


Our Strategic Focus:

- ✓ 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
- ✓ The financial flexibility and strength to capture opportunities

Our Goal: To Deliver Top Quartile Returns Through The Cycle

Our Journey: Focus on Repositioning Company for Outstanding Returns



REPAIR AND IMPROVE CORE CAPABILITIES AND POSITION

- Focused portfolio; sold life; re-underwrote weak P&C business
- Returned core products to profitability
- Upgraded talent and core systems
- Invested in Core Commercial and Small Commercial offerings
- Built Personal Lines product offering

EXPAND CAPABILITIES TO DIVERSIFY BOOK CREATE GREATER DISTINCTIVENESS

- Established national distribution footprint
- Built a robust U.S. Specialty portfolio
- Solidified E&S capability and reach in some global lines through Chaucer acquisition
- Drove growth in Niches and industry solutions
- Created more distinctive account approach for Personal Lines

2013 is the year of financial improvement.

Our Journey to Top Quartile ...We Are Poised To Take The Next Step

2004

2005

2006

2007

2008

2009

2010

2011

2012

2013



LEVERAGE CAPABILITIES & IMPROVE RETURNS

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

EXPAND CAPABILITIES AND REACH

- New geographies
- Specialty portfolio
- Operating model improvements
- Industry solutions

IMPROVE CORE CAPABILITIES AND POSITION

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

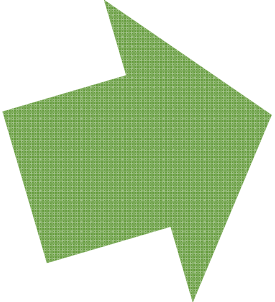
REPAIR & FOCUS

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

Outlook Strong: Improving Quality Of Business Mix



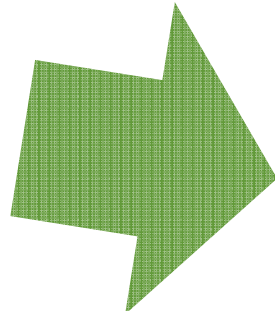
The Hanover
Positioned for
Improved
Financial
Performance



I. A better mix of business
-Geography
-Line of business



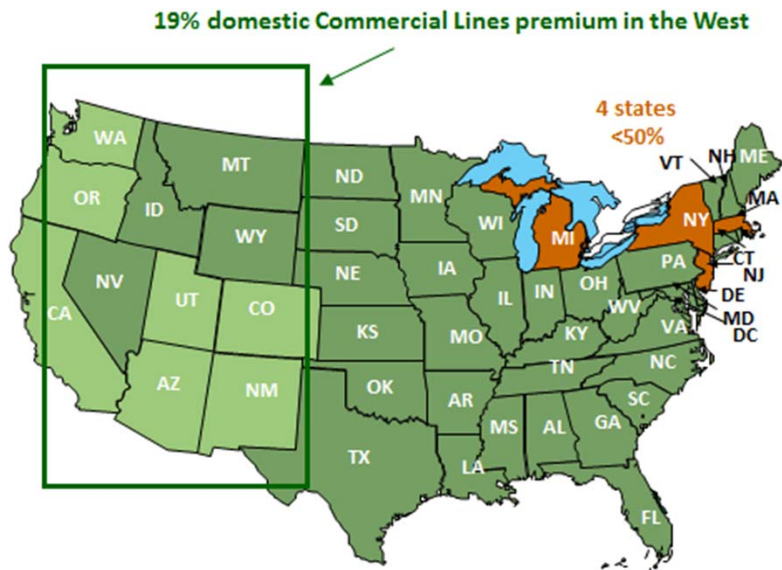
II. Businesses with more
distinctive, competitive position



III. The Hanover's value
proposition leads to preferred
shelf space and strong stable
book

We have substantially improved our geographic diversification

\$ in millions

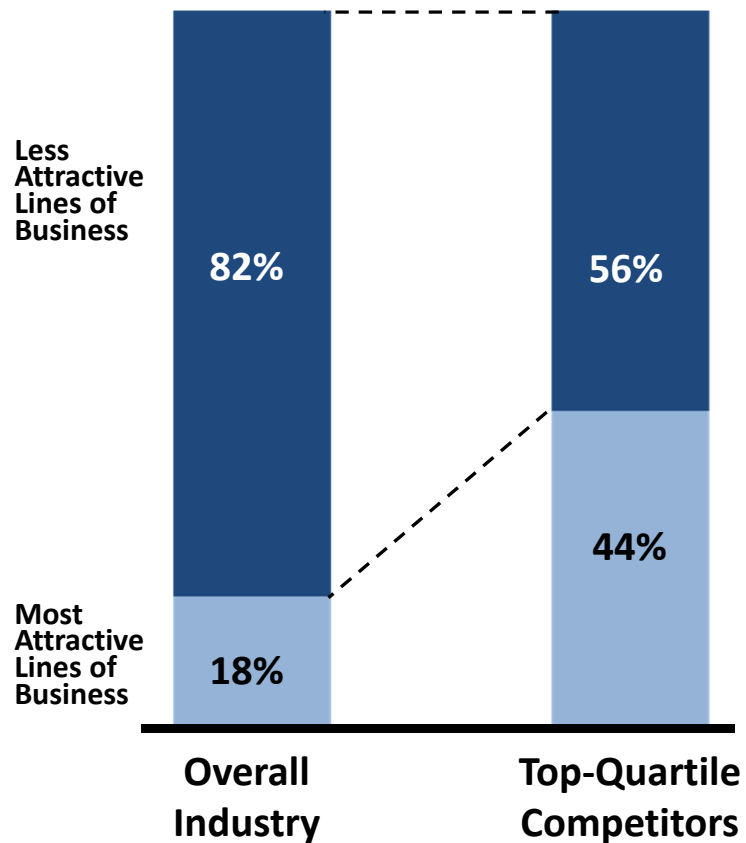


- Decreased concentration in the top 4 states from 57% in 2008 to about one third in 2012 through exposure management actions, growth and acquisitions
- Made considerable progress growing in targeted states, such as Commercial Lines expansion in the West Coast
- Chaucer has a strong diversifying effect on our mix and earnings

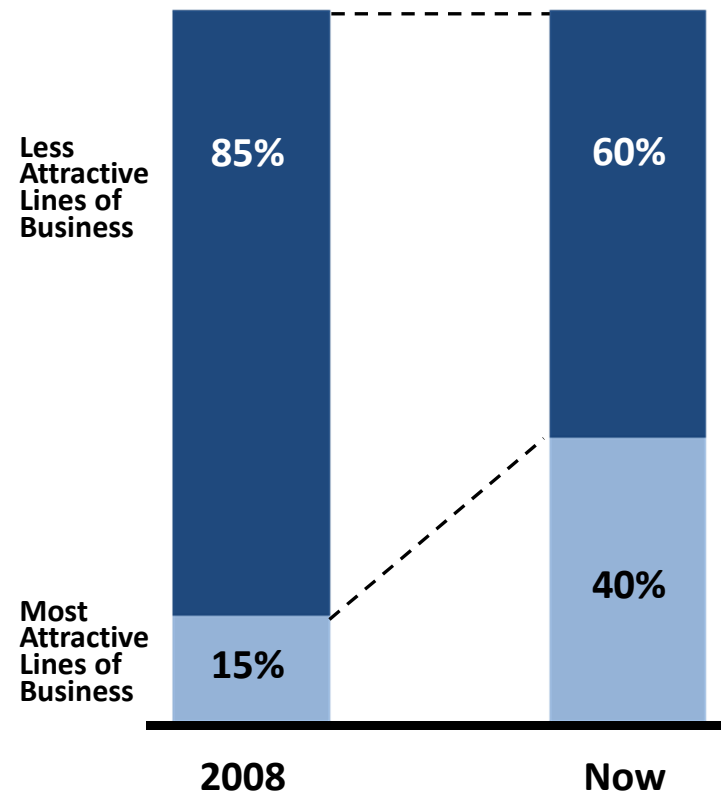
2008				2012			
State	NWP (\$)	% of Total DWP		State	NWP (\$)	% of Total DWP	
MI	\$ 736	29%		MI	\$ 762	17%	
MA	297	12%		MA	324	7%	
NY	250	10%		NY	279	6%	
NJ	161	6%		CA	226	5%	
LA	97	4%		NJ	180	4%	
FL	92	4%		IL	146	3%	

Our portfolio has been completely repositioned – more in line with top-quartile companies

Top Quartile Better Mix Than Industry

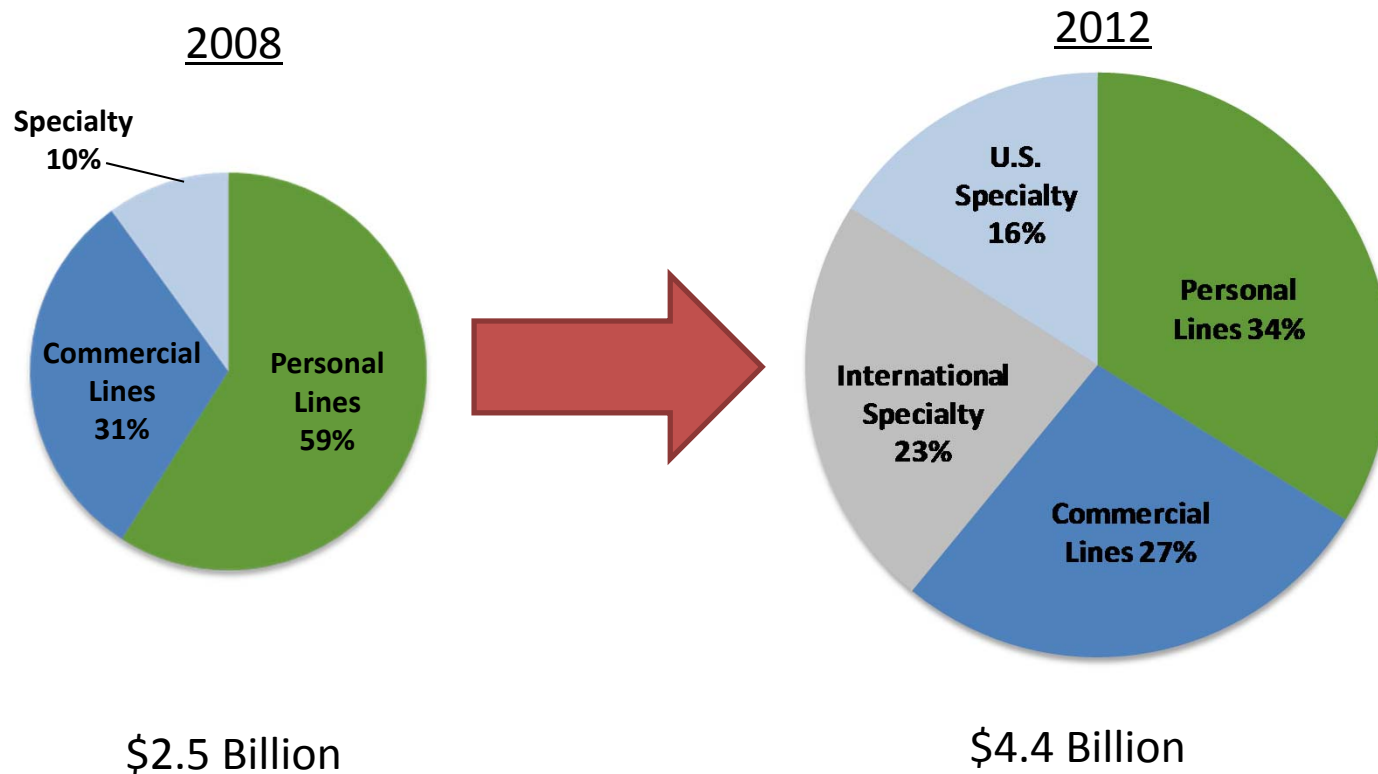


The Hanover Mix Change



We have a more balanced and diversified book of business

Business Mix, NWP



We have made a meaningful shift to more casualty-focused business in recent years

More Importantly, We Created More Distinctiveness in Every Business

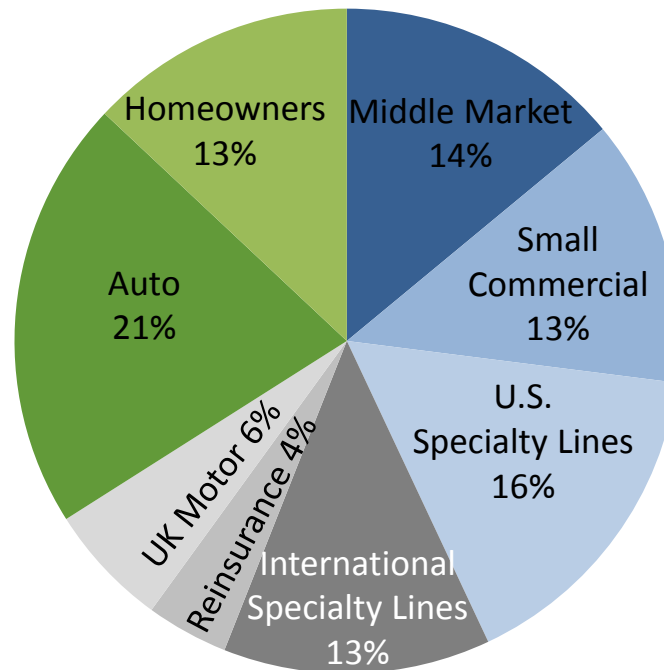
U.S. Personal Lines – 34%

- Strong offering for attractive account segment
- Consistent delivery of required pricing while holding retention
- Growing attractive business
- Platinum offering will give us unique offering for target segment

International Specialty – 23%

- Portfolio of Specialty business with distinctive position, plus U.K. motor
- Strong performance track record
- International rates mainly flat after benign 2012

2012 Business Profile



\$4.4 Billion in Net Written Premium

U.S. Commercial Lines – 27%

- Small Commercial
- Building leading position for Main Street accounts
 - Unique operating model and best positioned for consolidation
- Middle Market
- Distinctive industry solution for lower-end Middle Market
 - Franchise value driving significant share shift

U.S. Specialty – 16%

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

Our Strategy Led To Preferred Shelf Space Momentum With The Best Retail Agents

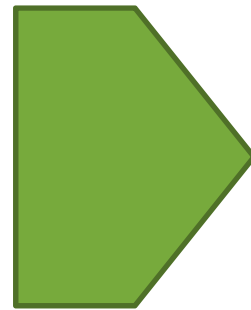
THE HANOVER PROMISE



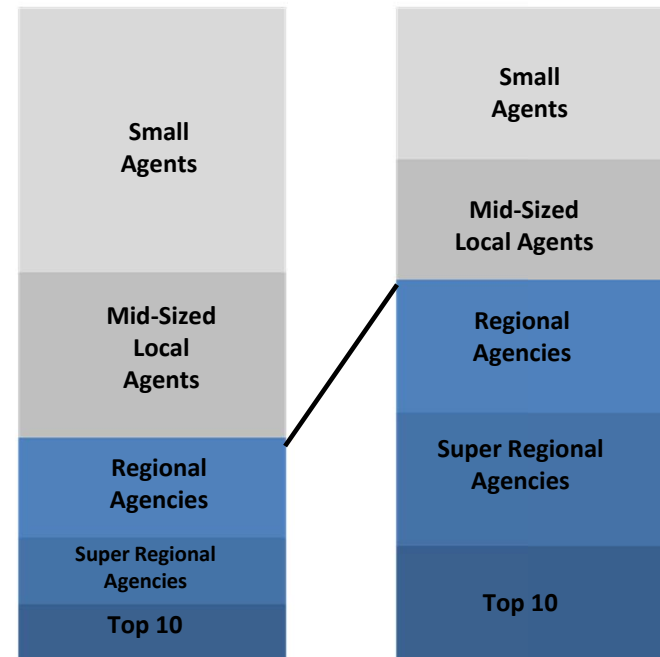
The Best Partner Because:

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

Value Proposition



Agency Segment Penetration
\$2.4B \$4.4B



2003

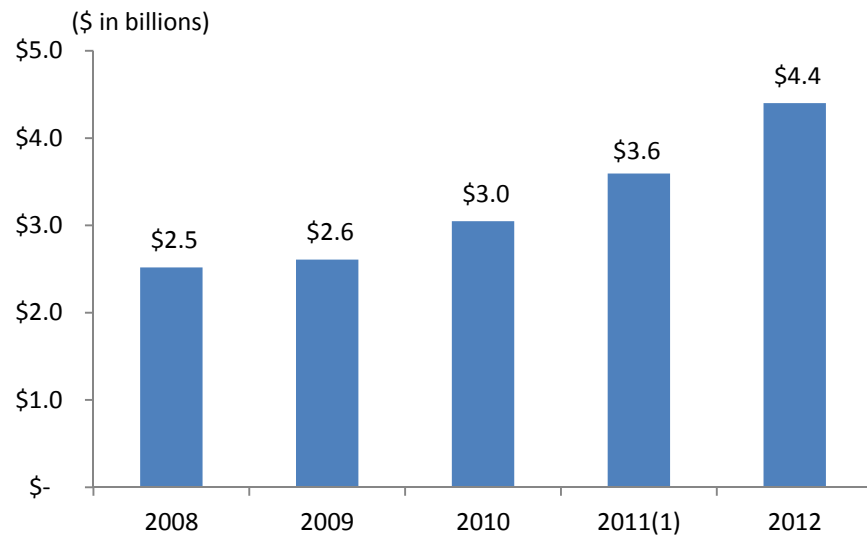
2012
Premium



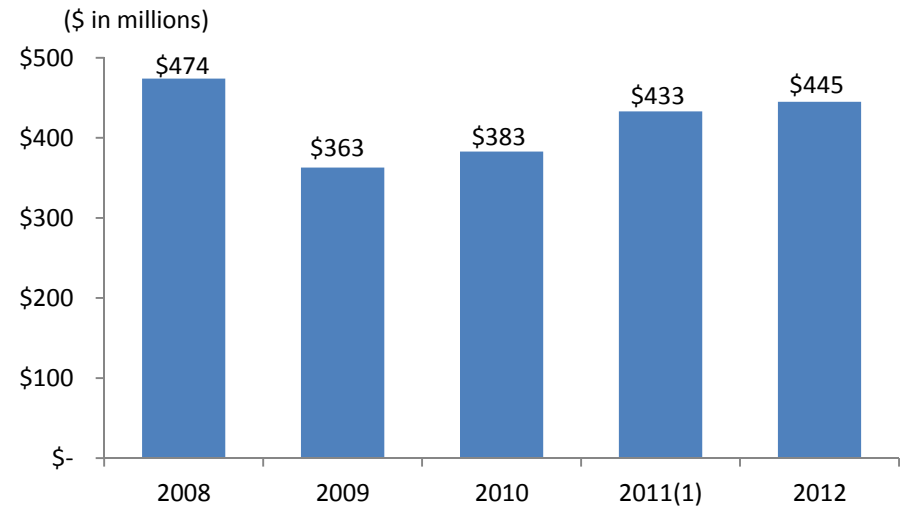
Share Shift With Best Agents

Solid Financial Progress Toward Our Goals

Net Written Premium Growth



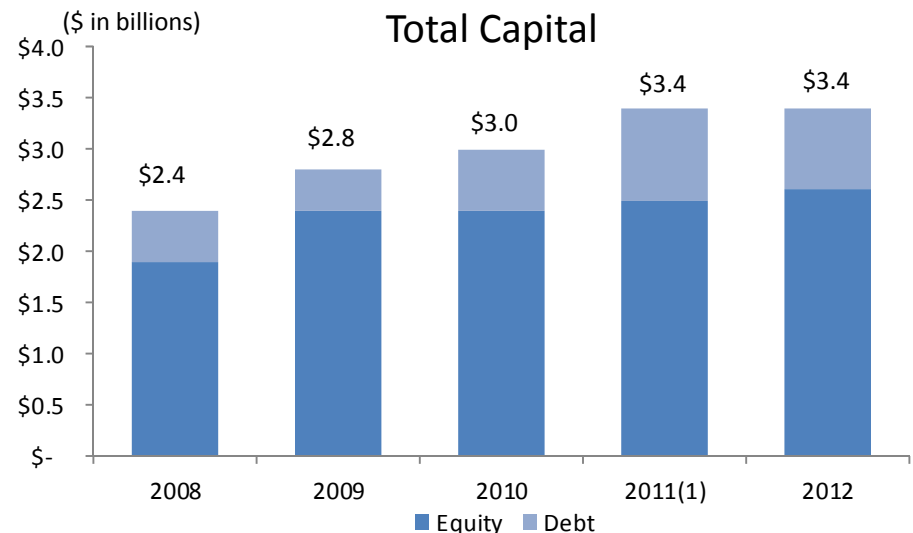
Earnings Power Pre-Tax Segment Income Ex-Cat



Strong Ratings

	2003 FSR	Current FSR	Current Senior Debt Ratings	Date of Most Recent Upgrade/ Outlook Change
A.M. Best	B++	A	bbb	May 2009 - Upgrade
Moody's	Baa2	A3	Baa3	January 2008 - Upgrade
S&P	BBB+	A-	BBB-	May 2008 - Upgrade 2010 - Upgraded ERM rating April 2011 - Stable Outlook

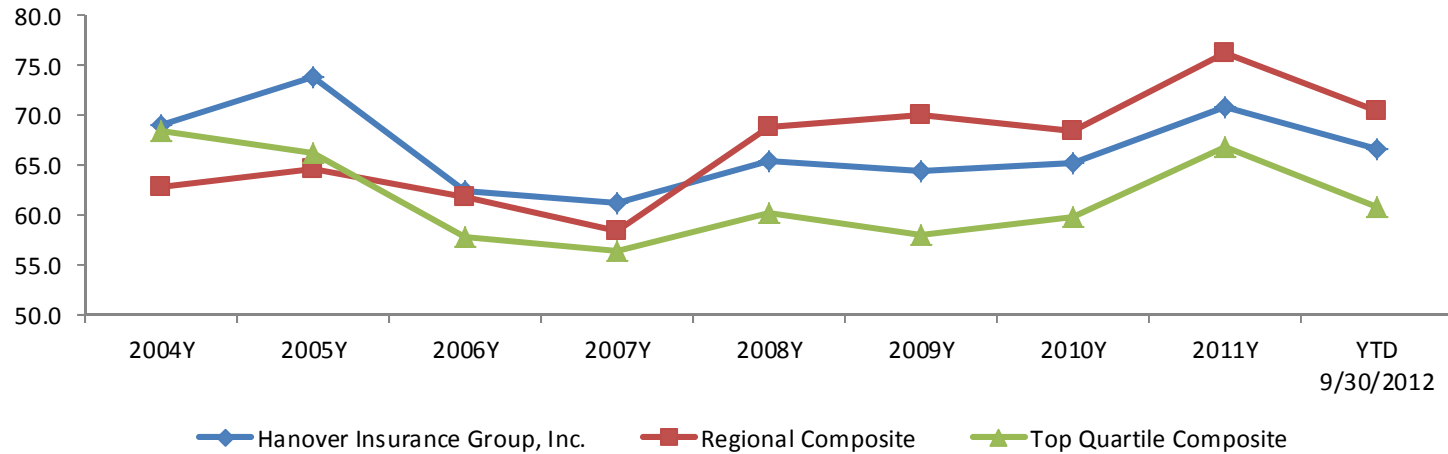
Total Capital



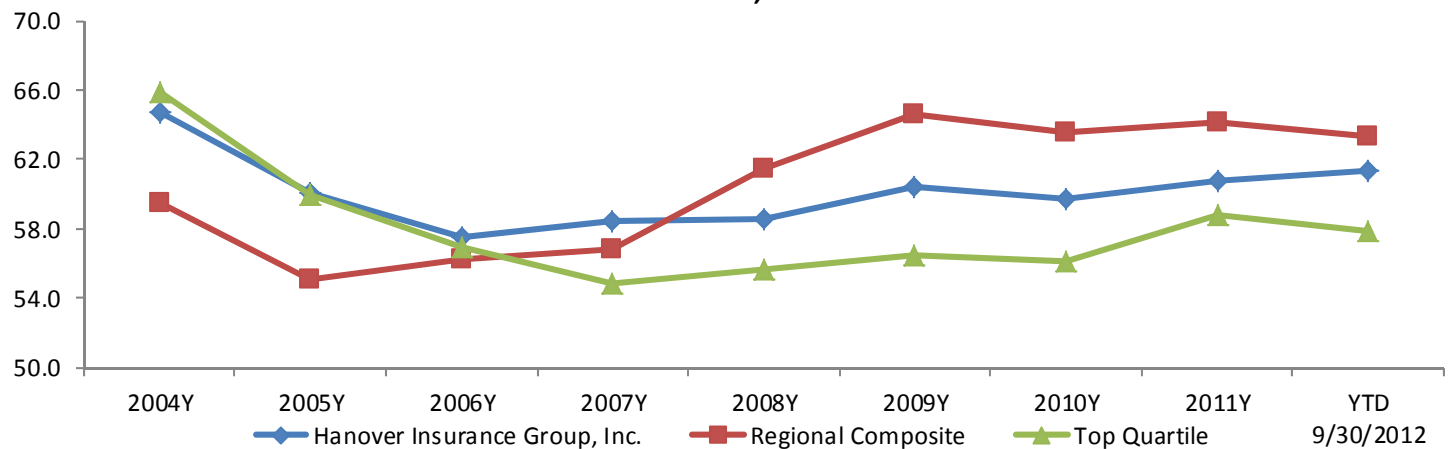
(1) Information on footnotes used throughout this presentation can be seen on the "Footnotes" slide in the Appendix at the end of this presentation.

Outperforming Regionals, Targeting Top Quartile

Loss Ratio



Loss Ratio, Ex-Cat⁽²⁾



2012 was a year of transition. The progress we made positions us well for improved returns...

2012 Highlights

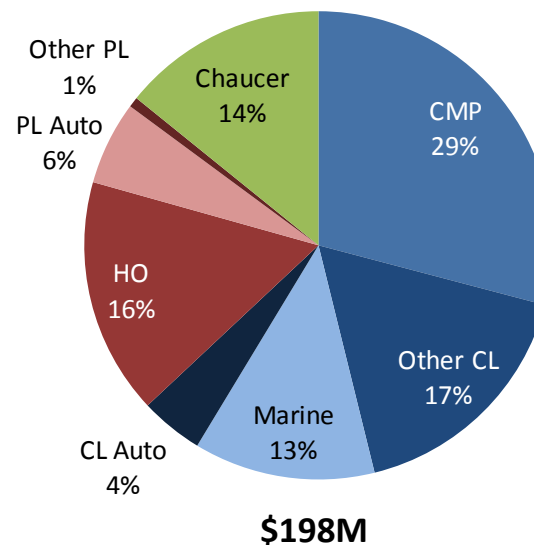
- Book value per share of \$58.59 at December 31, 2012, up 5% from December 31, 2011
- On December 7, the Board of Directors increased the quarterly common dividend to \$0.33 per share
- Net premiums written of \$4.4 billion, 22% higher than the prior year, driven by a full year of Chaucer premiums, and by growth of 12% in Commercial Lines
- Combined ratio of 104.4%; ex-catastrophe combined ratio of 95.7%⁽²⁾
- Catastrophe losses after-taxes of \$240.4 million
- Net investment income of \$276.6 million
- Net income of \$55.9 million, or \$1.23 per diluted share; segment income after tax⁽²⁾ of \$15.1 million, or \$0.33 per diluted share, affected by catastrophes

Improving earnings resiliency through exposure management actions

Significant exposure management efforts have been undertaken to reduce our exposure to increasing weather volatility

- We made dramatic improvements in aggregation management over the last several years: exited Rhode Island and Florida homeowners, reduced Louisiana and Northeast property
- Instituted more aggressive underwriting actions targeting age of roofs and deductibles
- Last 18 months more targeted actions
 - \$175 million premium reduction in micro concentrations
 - Targeted cancellations
 - Renewal rights transactions

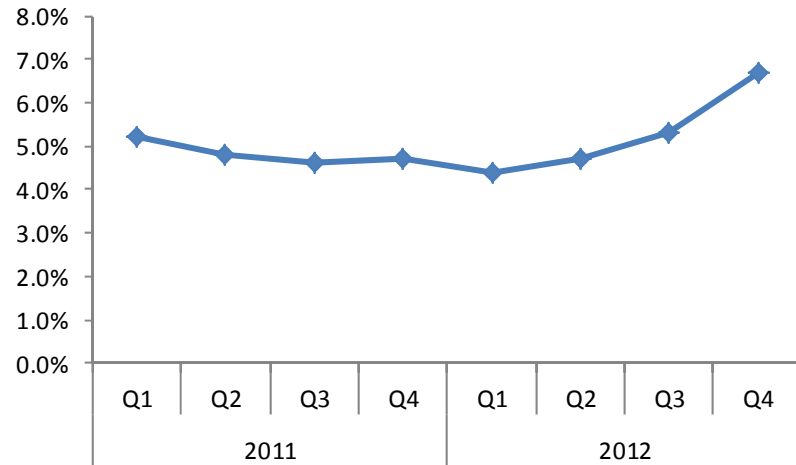
Sandy Loss by Line of Business



- Hanover Domestic loss of \$170 million was less than market share models would indicate, using an industry estimate of \$20 billion⁽³⁾
- Did not breach catastrophe reinsurance retention program - Favorable reinsurance renewal pricing position on 1/1

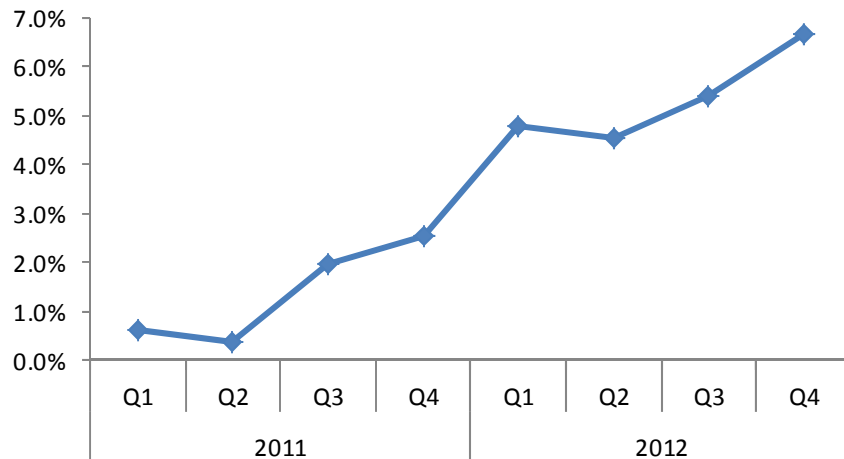
Increasing rates in auto in response to liability trends

Hanover Personal Auto Pricing

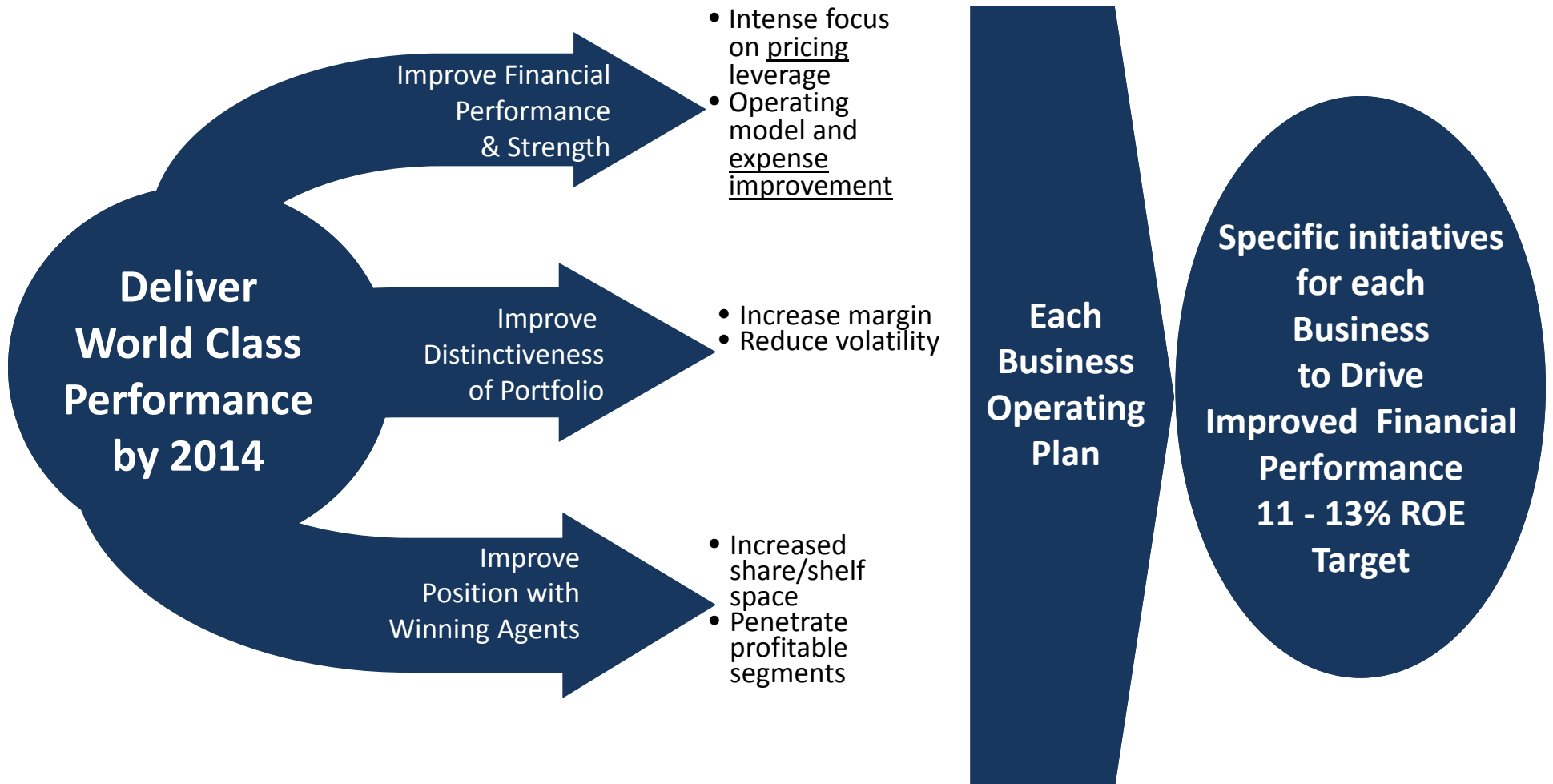


- According to the National Highway Traffic Safety Administration, traffic fatalities increase over 7% for the first nine months of 2012, compared to the same period in 2011, representing the highest increase since 1975
- Higher industry severity trends can also be attributed to longer duration and slower development of claims due to litigation in a depressed economy

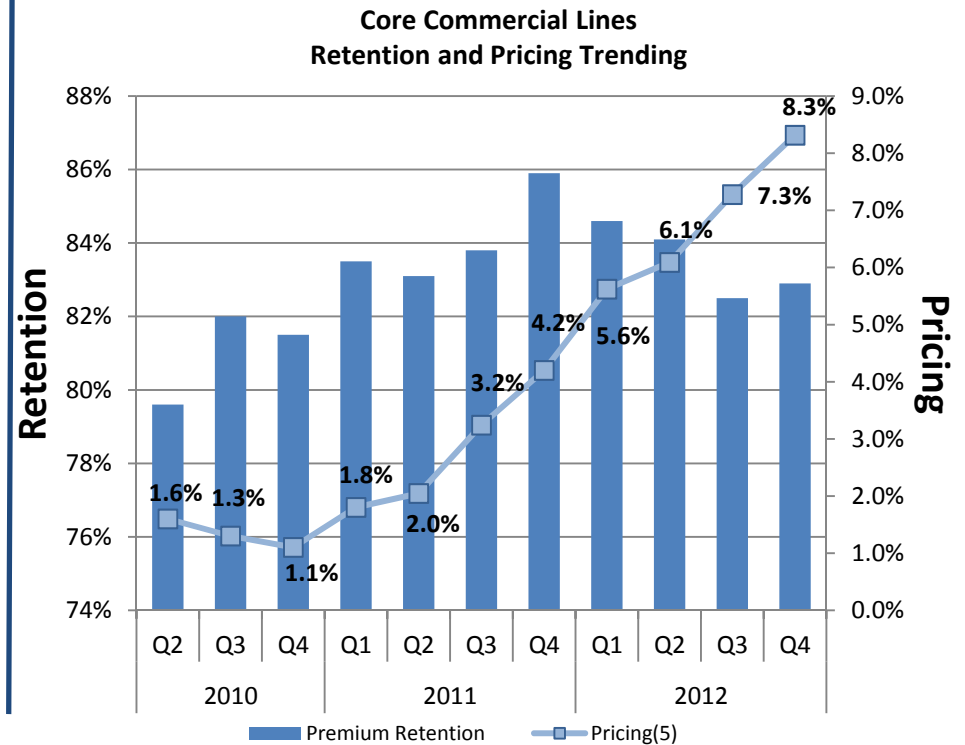
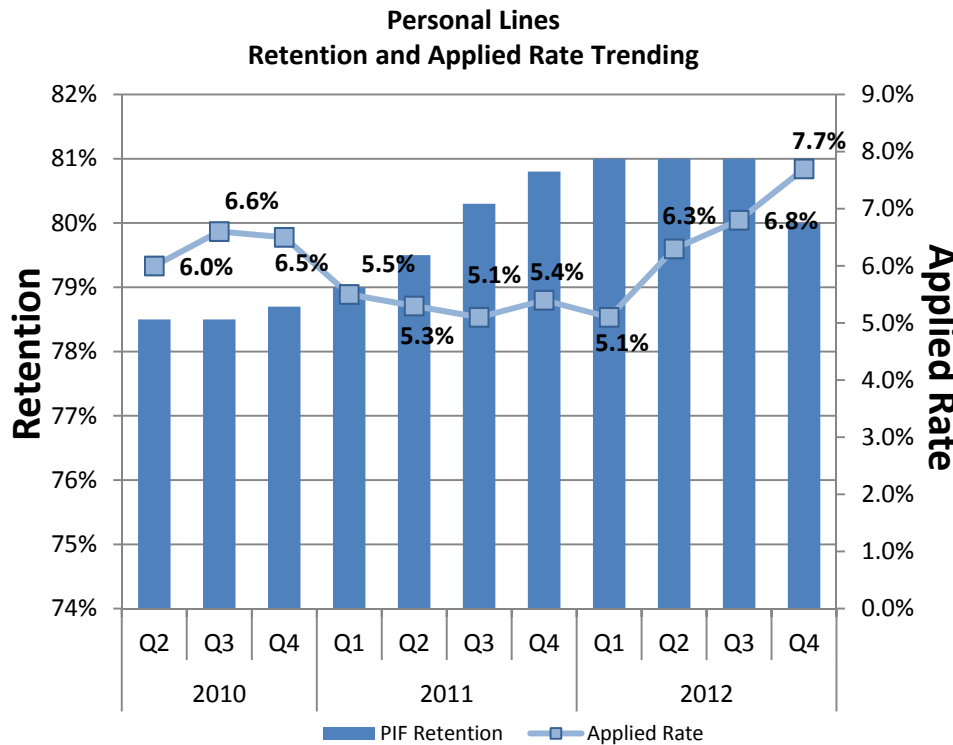
Hanover Commercial Auto Pricing



2013 Focus On Execution Driving Financial Improvement



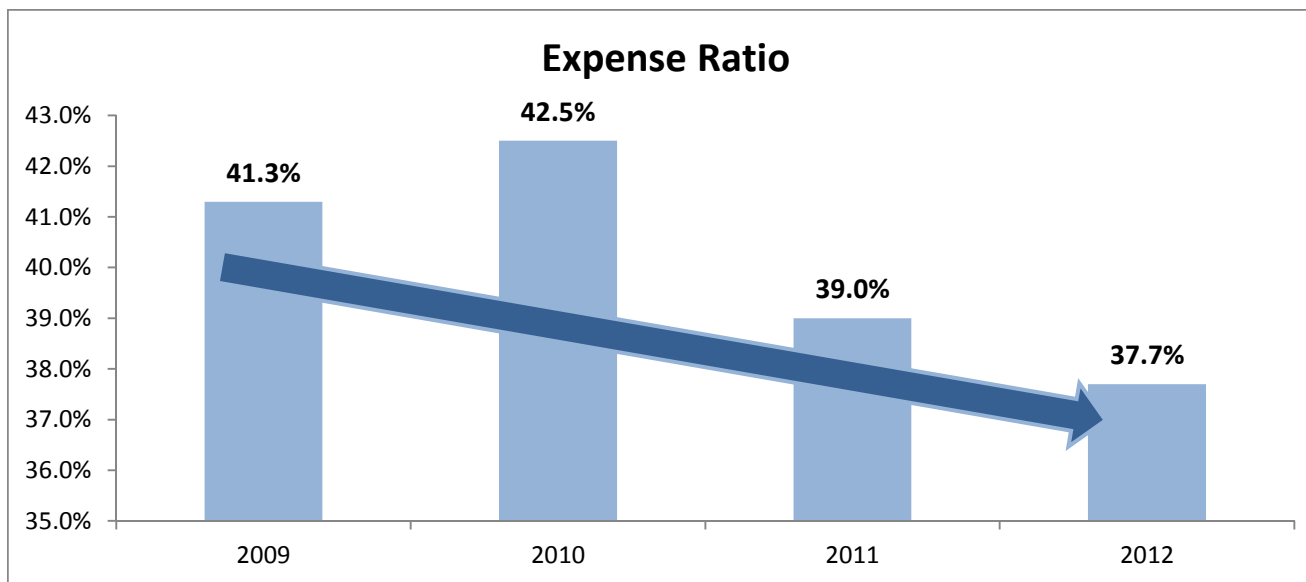
Strong Pricing Momentum



- Strong retention provides confidence we have room for a similar level of rate increases in 2013
- Partner agency support
- Continued, targeted pricing increases across book of business

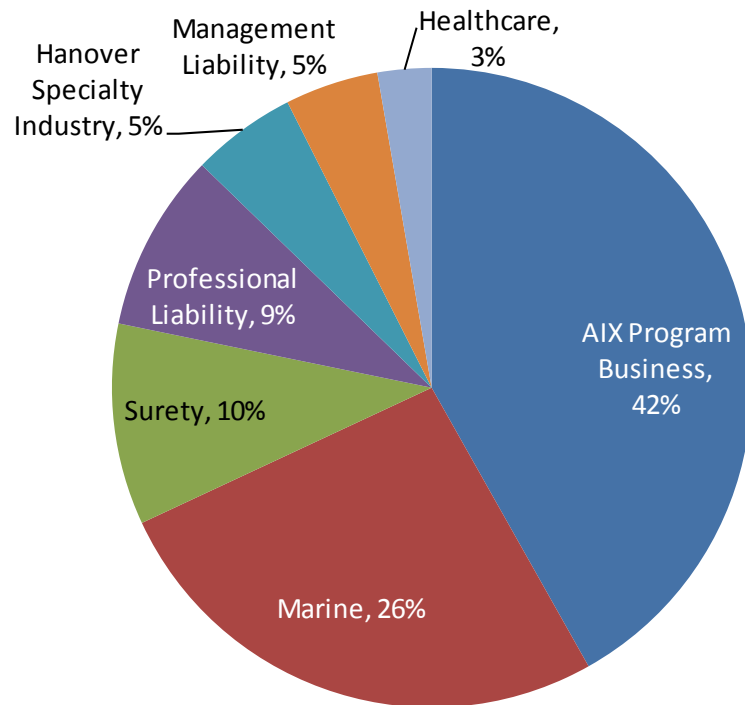
Improved Scale and Enhanced Operating Efficiencies Drive Lower Expense Ratio in Commercial Lines

- Renewal rights and western expansion completion drove 2 to 3-point improvement
- Maturing Specialty business investment provide additional leverage
- Maturing of new operating model for Small Commercial and Middle Market
- Visibility into continued improvement in expense ratio driven by earned premium leverage, lower investment requirements and operating efficiencies



Committed to building market leading specialty businesses to enhance the value of our franchise

2012 Net Written Premium



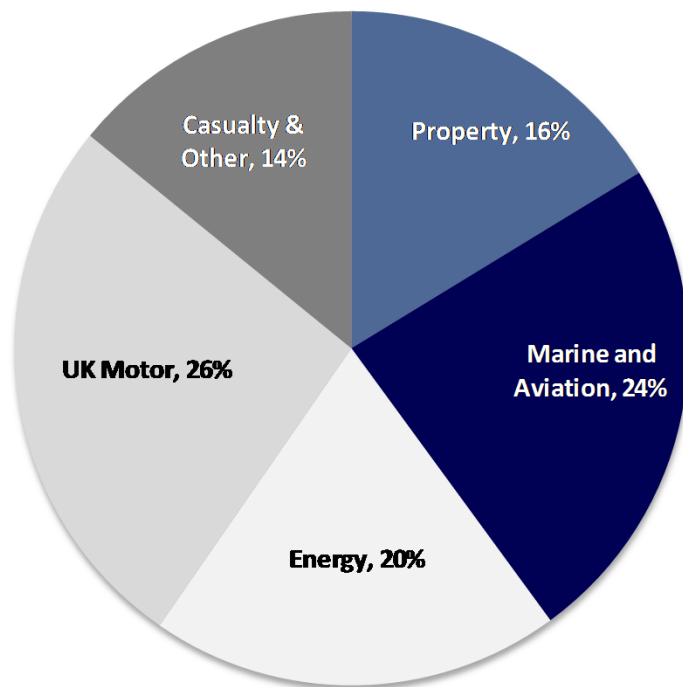
~\$700M

- Our specialty portfolio meaningfully improves diversification and accesses to many of the high margin segments in the P&C industry
- We have attracted deeply experienced leaders and invested in developing market leading products and platforms
- We developed specialty products with heavy emphasis on all aspects of risk management

We have a number of levers to grow margins in our specialty businesses

Leveraging diversification of business mix and earnings Chaucer brings to the organization

2012 Net Written Premiums by Division



\$991M

- A capital efficient underwriting portfolio
 - Balances global marine, aviation, energy, and property with UK motor and nuclear
 - Total underwriting interests of \$1.1 billion for 2012
 - Capital requirements of \$502 million
- A healthy average combined ratio
 - A reported 2004-12 cross-cycle average of 94%⁽⁵⁾
- Together, these produce a healthy return on capital
 - A reported 2004-12 cross-cycle average ROE of 13%⁽⁵⁾

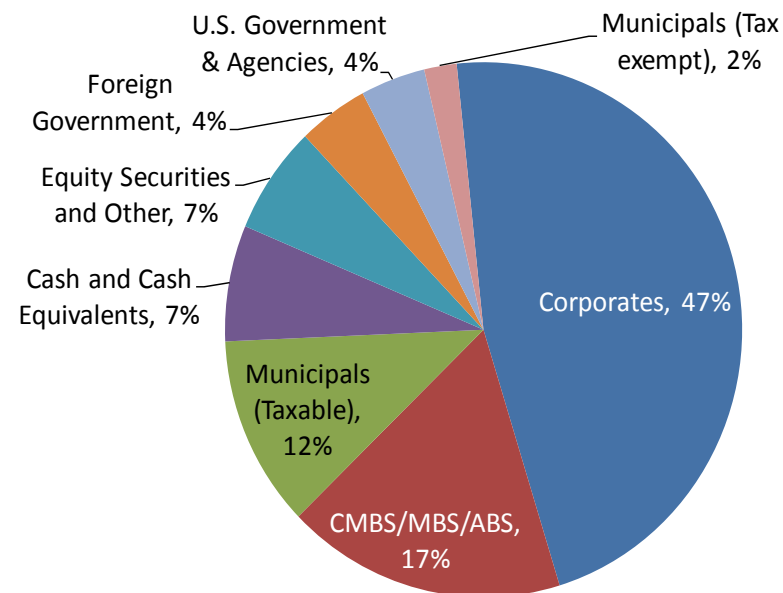
Strong Balance Sheet and Flexible Capital Position

Capital

- Capital above target levels for all rating agencies
- Financial leverage of 24%⁽⁶⁾ within industry and rating agency thresholds
- Significant holding company liquidity:
 - \$164 million in cash and invested assets as of December 31, 2012
 - No debt maturities until 2020
 - Available credit facility of \$200 million
- Participation at Lloyd’s provides additional capital flexibility and efficiency

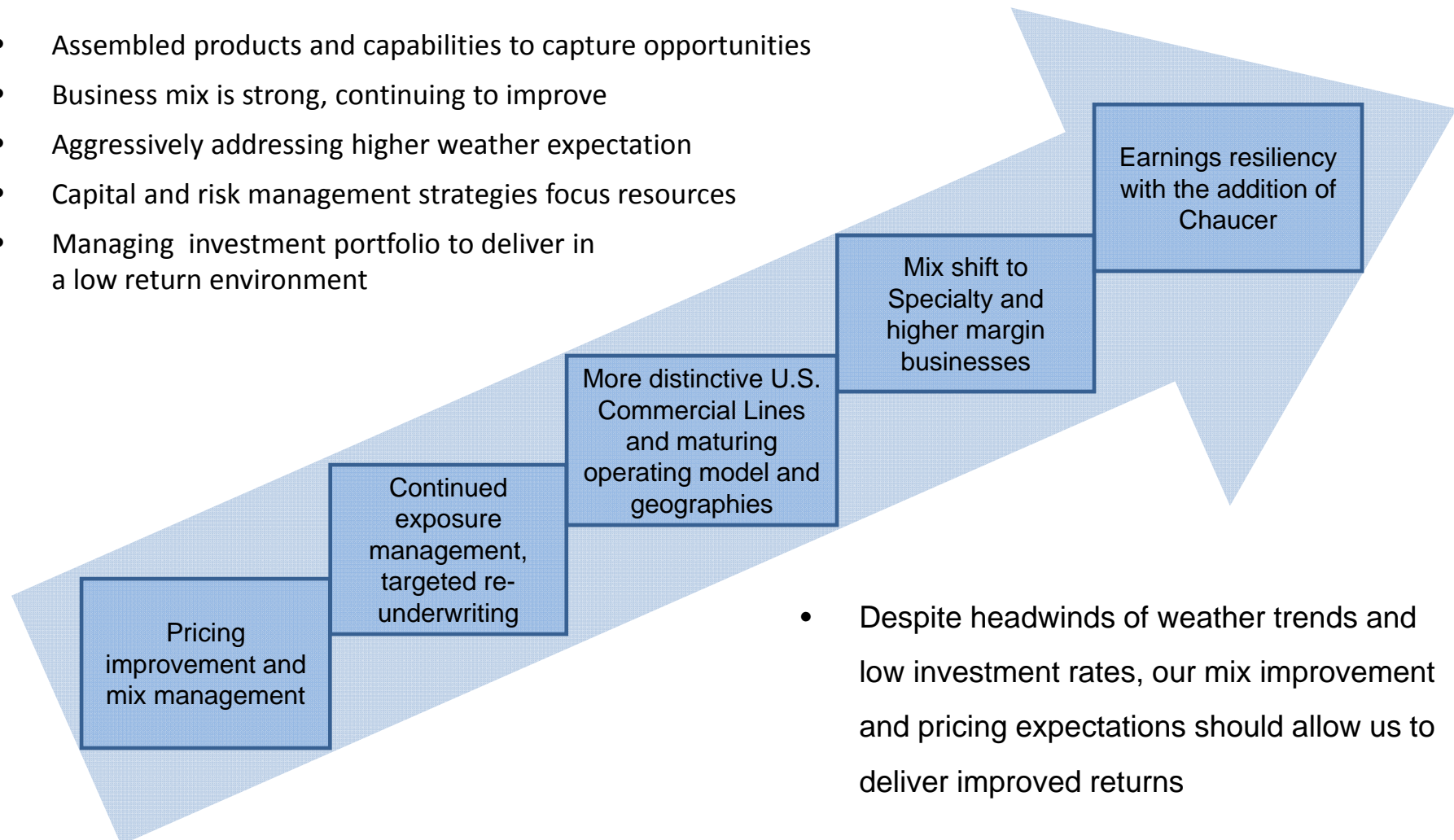
Investment portfolio

- High quality, well diversified and laddered investment portfolio
- 86% of the \$8.0 billion portfolio is invested in fixed income; 7% in cash and equivalents
- 95% of fixed income securities are investment grade; Weighted average quality A+ -- duration of 4.1 years
- Strong persistency of yield; Q4’12 fixed income yield at 4.1%



Significant Opportunity To Improve Performance

- Assembled products and capabilities to capture opportunities
- Business mix is strong, continuing to improve
- Aggressively addressing higher weather expectation
- Capital and risk management strategies focus resources
- Managing investment portfolio to deliver in a low return environment

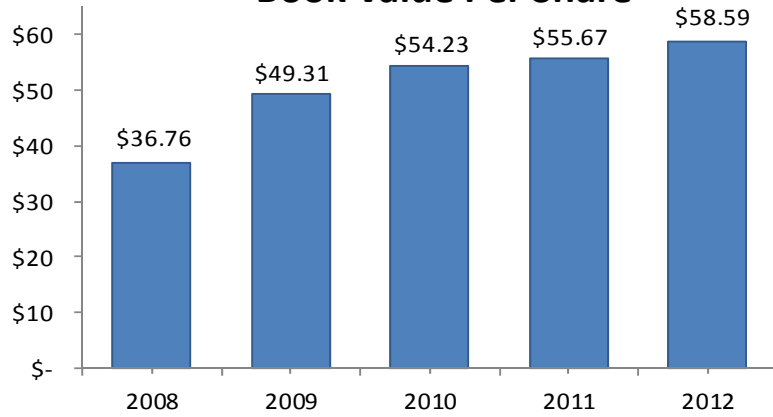


- Despite headwinds of weather trends and low investment rates, our mix improvement and pricing expectations should allow us to deliver improved returns

We are building our business to deliver top quartile performance

Book Value Growth and Shareholder Value Creation

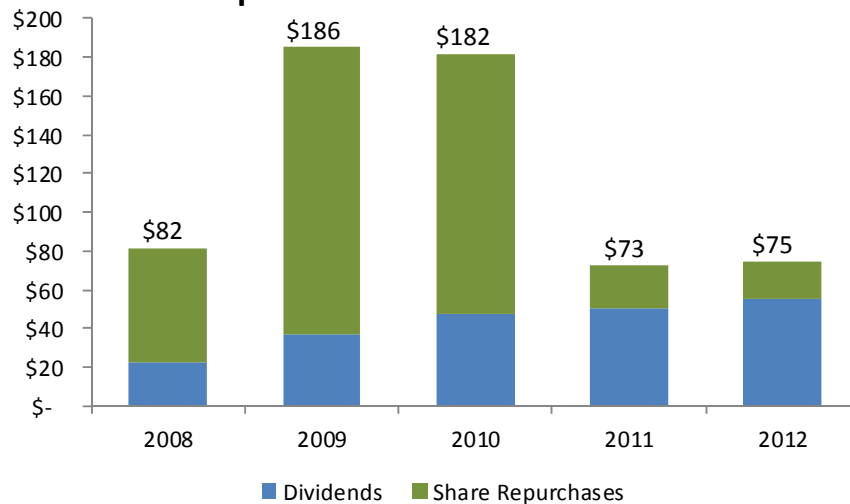
Book Value Per Share



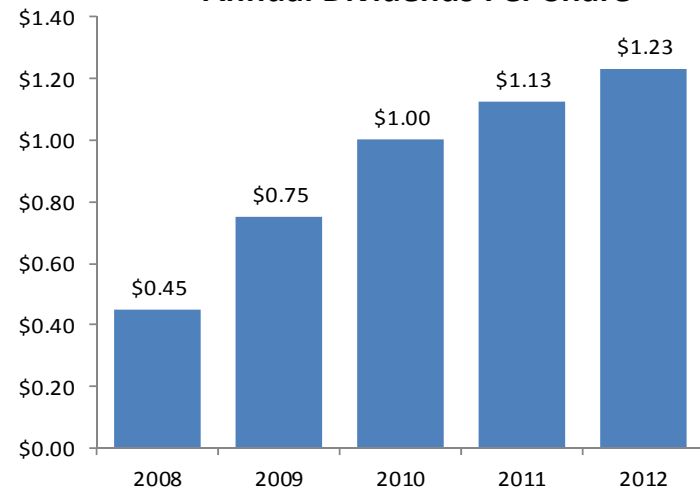
- Demonstrated ability to return capital to shareholders through dividends and share repurchases
 - Annual dividend increased each year since 2005
 - Flexible and opportunistic approach towards share repurchases
 - Returned \$263 million through dividends and \$585 million in repurchases since 2005, which represents 53% of our January 2005 market capitalization

\$ in millions

Capital Returned to Shareholders



Annual Dividends Per Share



Investment Thesis

- Attributes not fully recognized by the market:
 - Well-diversified product and geographic mix, distinctive offering
 - Strong distribution plant; best in the country
 - High quality, high yielding investment portfolio less sensitive to the change in yields than most
 - Strong balance sheet
 - Good visibility into improved profitability and ROE
 - Diversification and earnings resiliency enhanced by the acquisition of Chaucer
- Attractive valuation compared to peers and historical levels

Questions



Appendix

Reconciliation of "Property and Casualty Pre-Tax Segment Income Excluding Catastrophes" to "Income From Continuing Operations." ⁽¹⁾

	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
(\$ In Millions)					
Pre-Tax Contribution (excluding catastrophes)*	445	\$ 433.4	\$ 382.5	\$ 363.3	\$ 474.4
Catastrophes Losses and LAE	(369.9)	(361.6)	(160.3)	(98.9)	(169.7)
Property and Casualty Segment Income (Loss)	75.1	71.8	222.2	264.4	304.7
Interest Expense	(61.9)	(55.0)	(44.3)	(35.1)	(39.9)
Segment income (loss) before income taxes	13.2	16.8	177.9	229.3	264.8
Income tax (expense) benefit on segment income (loss)	1.9	(2.6)	(59.3)	(75.5)	(87.2)
Segment income (loss) after income taxes	15.1	14.2	118.6	153.8	177.6
Net realized investment gains (losses)	23.6	28.1	29.7	1.4	(97.8)
Gain (loss) from retirement of debt	(5.1)	(2.3)	(2.0)	34.5	-
Costs related to acquired businesses	(2.6)	(16.4)	-	-	-
Net foreign exchange gains (loss)	(0.4)	6.7	-	-	-
Gain (loss) on derivative instruments	-	(11.3)	-	-	-
Other non-segment items	-	-	-	-	(0.1)
Income tax settlement	-	-	-	-	6.4
Income tax (expense) benefit on non-segment income (loss)	15.5	12.5	3.3	(5.6)	-
Income (loss) from continuing operations	<u>\$ 46.1</u>	<u>\$ 31.5</u>	<u>\$ 149.6</u>	<u>\$ 184.1</u>	<u>\$ 86.1</u>

Combined Ratio Reconciliation

Loss and LAE Ratio	70.2%	70.8%	65.3%	64.4%	65.5%
Expense Ratio	34.2%	33.9%	35.0%	34.0%	32.4%
Combined ratio	<u>104.4%</u>	<u>104.7%</u>	<u>100.3%</u>	<u>98.4%</u>	<u>97.9%</u>
Catastrophes losses	8.7%	10.0%	5.6%	3.9%	6.8%
Combined ratio excluding catastrophes	95.7%	94.7%	94.7%	94.5%	91.1%

Footnotes

- 1) Results include Chaucer beginning July 1, 2011
- 2) Non-GAAP measure. See slide 2.
- 3) Note: Market Share is calculated based on 2011 Direct Written Premium in "Catastrophe Lines" per SNL Financial; Worker's Compensation losses as a result of Sandy were negligible
- 4) Includes rate and exposure change on retained business
- 5) Based on IFRS (prior to acquisition in July 2011) and US GAAP (post-acquisition)
- 6) Pro-forma December 31, 2012, including subsequent repayment of \$46 million of FHLBB advances in January 2013