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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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

For the transition period from _____ to _____

Commission File Number 1-13754

THE HANOVER INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3263626
(I.R.S. Employer
Identification No.)

440 Lincoln Street, Worcester, Massachusetts 01653
(Address of principal executive offices) (Zip Code)

(508) 855-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 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 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

The number of shares outstanding of the registrant's common stock was 43,858,956 as of October 28, 2013.

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

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

<i>(In millions, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Premiums	\$1,124.7	\$1,071.0	\$3,309.8	\$3,156.6
Net investment income	65.7	69.2	200.9	206.5
Net realized investment gains (losses):				
Net realized gains from sales and other	3.1	7.2	26.5	10.4
Net other-than-temporary impairment losses on investments recognized in earnings	(2.1)	(2.2)	(3.7)	(5.7)
Total net realized investment gains	1.0	5.0	22.8	4.7
Fees and other income	10.4	12.5	31.2	38.9
Total revenues	<u>1,201.8</u>	<u>1,157.7</u>	<u>3,564.7</u>	<u>3,406.7</u>
Losses and expenses				
Losses and loss adjustment expenses	695.9	708.4	2,071.4	2,101.9
Amortization of deferred acquisition costs	243.9	235.8	719.1	697.0
Interest expense	16.6	14.6	48.7	46.7
Other operating expenses	159.3	145.7	484.6	426.0
Total losses and expenses	<u>1,115.7</u>	<u>1,104.5</u>	<u>3,323.8</u>	<u>3,271.6</u>
Income before income taxes	<u>86.1</u>	<u>53.2</u>	<u>240.9</u>	<u>135.1</u>
Income tax expense (benefit):				
Current	2.4	(16.9)	5.9	11.2
Deferred	22.4	29.2	54.2	22.5
Total income tax expense	<u>24.8</u>	<u>12.3</u>	<u>60.1</u>	<u>33.7</u>
Income from continuing operations	61.3	40.9	180.8	101.4
Net gain (loss) from other discontinued operations (net of tax benefit of \$0.1 and \$0.3 for the three months ended September 30, 2013 and September 30, 2012 and \$0.1 and \$0.7 for the nine months ended September 30, 2013 and September 30, 2012)	—	(0.5)	0.1	9.5
Net income	<u>\$ 61.3</u>	<u>\$ 40.4</u>	<u>\$ 180.9</u>	<u>\$ 110.9</u>
Earnings per common share:				
Basic:				
Income from continuing operations	\$ 1.40	\$ 0.92	\$ 4.10	\$ 2.26
Net gain (loss) from discontinued operations	—	(0.01)	—	0.21
Net income per share	<u>\$ 1.40</u>	<u>\$ 0.91</u>	<u>\$ 4.10</u>	<u>\$ 2.47</u>
Weighted average shares outstanding	<u>43.8</u>	<u>44.6</u>	<u>44.1</u>	<u>44.8</u>
Diluted:				
Income from continuing operations	\$ 1.37	\$ 0.90	\$ 4.03	\$ 2.23
Net gain (loss) from discontinued operations	—	(0.01)	—	0.21
Net income per share	<u>\$ 1.37</u>	<u>\$ 0.89</u>	<u>\$ 4.03</u>	<u>\$ 2.44</u>
Weighted average shares outstanding	<u>44.6</u>	<u>45.2</u>	<u>44.9</u>	<u>45.4</u>

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)**

<i>(In millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 61.3	\$ 40.4	\$ 180.9	\$110.9
Other comprehensive income (loss), net of tax:				
Available-for-sale securities and derivative instruments:				
Net appreciation (depreciation) during the period	(9.3)	49.4	(142.0)	133.5
Portion of other-than-temporary impairment losses transferred from (to) other comprehensive income	(0.2)	2.4	0.5	7.1
Total available-for-sale securities and derivative instruments	(9.5)	51.8	(141.5)	140.6
Pension and postretirement benefits:				
Amortization recognized as net periodic benefit and postretirement cost	1.9	1.6	7.9	4.6
Cumulative foreign currency translation adjustment:				
Amount recognized as cumulative foreign currency translation during the period	5.7	7.5	(4.4)	8.4
Total other comprehensive income (loss), net of tax	(1.9)	60.9	(138.0)	153.6
Comprehensive income	\$ 59.4	\$ 101.3	\$ 42.9	\$264.5

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 BALANCE SHEETS (UNAUDITED)

	September 30,	December 31,
<i>(In millions, except share data)</i>	2013	2012
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$6,473.3 and \$6,529.5)	\$ 6,675.5	\$ 6,952.2
Equity securities, at fair value (cost of \$449.0 and \$299.0)	494.1	315.8
Other investments	185.3	210.3
Total investments	<u>7,354.9</u>	<u>7,478.3</u>
Cash and cash equivalents	602.2	564.8
Accrued investment income	70.0	69.0
Premiums and accounts receivable, net	1,410.7	1,308.8
Reinsurance recoverable on paid and unpaid losses and unearned premiums	2,390.3	2,479.7
Deferred acquisition costs	521.7	489.5
Deferred income taxes	263.2	267.6
Goodwill	184.8	184.9
Other assets	544.7	511.8
Assets of discontinued operations	120.8	130.5
Total assets	<u>\$ 13,463.3</u>	<u>\$ 13,484.9</u>
Liabilities		
Loss and loss adjustment expense reserves	\$ 6,162.8	\$ 6,197.0
Unearned premiums	2,645.5	2,474.8
Expenses and taxes payable	638.4	775.8
Reinsurance premiums payable	412.2	466.2
Debt	938.7	849.4
Liabilities of discontinued operations	121.5	126.3
Total liabilities	<u>10,919.1</u>	<u>10,889.5</u>
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, par value \$0.01 per share; 20.0 million shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 300.0 million shares authorized; 60.5 million shares issued	0.6	0.6
Additional paid-in capital	1,829.6	1,787.1
Accumulated other comprehensive income	187.8	325.8
Retained earnings	1,295.2	1,211.6
Treasury stock at cost (16.9 and 16.2 million shares)	(769.0)	(729.7)
Total shareholders' equity	<u>2,544.2</u>	<u>2,595.4</u>
Total liabilities and shareholders' equity	<u>\$ 13,463.3</u>	<u>\$ 13,484.9</u>

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)**

<i>(In millions)</i>	Nine Months Ended September 30,	
	2013	2012
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	1,787.1	1,784.8
Employee and director stock-based awards and other	42.5	0.2
Balance at end of period	1,829.6	1,785.0
Accumulated Other Comprehensive Income (Loss), net of tax		
Net Unrealized Appreciation (Depreciation) on Investments and Derivative Instruments:		
Balance at beginning of period	426.0	308.7
Net appreciation during the period:		
Net appreciation (depreciation) on available-for-sale securities and derivative instruments	(141.5)	140.6
Balance at end of period	284.5	449.3
Defined Benefit Pension and Postretirement Plans:		
Balance at beginning of period	(96.6)	(86.8)
Net amount recognized as net periodic benefit cost	7.9	4.6
Balance at end of period	(88.7)	(82.2)
Cumulative Foreign Currency Translation Adjustment:		
Balance at beginning of period	(3.6)	(11.5)
Amount recognized as cumulative foreign currency translation during the period	(4.4)	8.4
Balance at end of period	(8.0)	(3.1)
Total accumulated other comprehensive income	187.8	364.0
Retained Earnings		
Balance at beginning of period	1,211.6	1,211.3
Net income	180.9	110.9
Dividends to shareholders	(43.8)	(40.3)
Stock-based compensation	(53.5)	0.2
Balance at end of period	1,295.2	1,282.1
Treasury Stock		
Balance at beginning of period	(729.7)	(723.1)
Shares purchased at cost	(78.2)	(20.0)
Net shares reissued at cost under employee stock-based compensation plans	38.9	10.8
Balance at end of period	(769.0)	(732.3)
Total shareholders' equity	\$2,544.2	\$2,699.4

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)**

<i>(In millions)</i>	Nine Months Ended September 30,	
	2013	2012
Cash Flows From Operating Activities		
Net income	\$ 180.9	\$ 110.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on repurchase of debt	11.3	—
Net realized investment gains	(22.8)	(3.8)
Net amortization and depreciation	25.4	26.0
Gain on sale of Citizens Management, Inc.	—	(10.8)
Stock-based compensation expense	8.9	9.8
Amortization of defined benefit plan costs	12.1	7.0
Deferred income taxes expense	54.1	21.9
Change in deferred acquisition costs	(32.2)	(42.6)
Change in premiums receivable, net of reinsurance premiums payable	(155.9)	(87.5)
Change in loss, loss adjustment expense and unearned premium reserves	146.5	408.0
Change in reinsurance recoverable	83.9	(170.0)
Change in expenses and taxes payable	(102.8)	(23.8)
Other, net	(27.5)	(40.5)
Net cash provided by operating activities	181.9	204.6
Cash Flows From Investing Activities		
Proceeds from disposals and maturities of fixed maturities	1,130.1	1,267.4
Proceeds from disposals of equity securities and other investments	111.5	21.7
Purchase of fixed maturities	(1,090.9)	(1,601.1)
Purchase of equity securities and other investments	(228.3)	(206.1)
Proceeds from disposal of Citizens Management, Inc., net of cash transferred	—	5.2
Capital expenditures	(17.0)	(11.2)
Net payments related to derivative agreements	—	(4.4)
Net cash used in investing activities	(94.6)	(528.5)
Cash Flows From Financing Activities		
Proceeds from exercise of employee stock options	21.7	1.9
Proceeds from debt borrowings, net	169.5	7.4
Decrease in cash collateral related to securities lending program	(18.1)	(6.6)
Dividends paid to shareholders	(43.8)	(40.3)
Repurchases of debt	(96.8)	(0.8)
Repurchases of common stock	(78.2)	(20.0)
Other financing activities	(3.8)	(0.2)
Net cash used in financing activities	(49.5)	(58.6)
Effect of exchange rate changes on cash	(0.5)	24.0
Net change in cash and cash equivalents	37.3	(358.5)
Net change in cash related to discontinued operations	0.1	0.1
Cash and cash equivalents, beginning of period	564.8	820.4
Cash and cash equivalents, end of period	\$ 602.2	\$ 462.0

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

**THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

1. Basis of Presentation and Principles of Consolidation

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

The interim consolidated financial statements of THG include the accounts of The Hanover Insurance Company (“Hanover Insurance”) and Citizens Insurance Company of America, THG’s principal U.S. domiciled property and casualty companies; Chaucer Holdings plc (“Chaucer”), a specialist insurance underwriting group which operates through the Society and Corporation of Lloyd’s (“Lloyd’s”) and certain other insurance and non-insurance subsidiaries. These legal entities conduct their operations through several business segments discussed in Note 9 – “Segment Information”. Additionally, the interim consolidated financial statements include the Company’s discontinued operations, consisting primarily of the Company’s former life insurance businesses, its accident and health business and prior to April 30, 2012, its third party administrator. All intercompany accounts and transactions have been eliminated. During the quarter, the Company increased additional paid-in capital and decreased retained earnings by \$34 million to correct the classification of amounts relating to stock-based compensation in prior periods. This reclassification within shareholders’ equity had no impact on net income, assets, liabilities or total shareholders’ equity of the Company for the current or any prior period.

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 three and nine months ended September 30, 2013 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 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 26, 2013.

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2. New Accounting Pronouncements

Recently Implemented Standards

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Update No. 2013-02 (Topic 220) *Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (“AOCI”) either on the face of the Statement of Income or in the Notes to the Consolidated Financial Statements. Significant amounts reclassified out of AOCI should be provided by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified in its entirety to net income in the same reporting period. For amounts not required to be reclassified in their entirety to net income, a cross-reference to other disclosures provided for in accordance with U.S. GAAP is required. This guidance was applicable for reporting periods beginning after December 15, 2012. The Company implemented the guidance effective January 1, 2013. The effect of implementing the guidance relates to financial statement presentation and disclosures. (See disclosures in Note 8 – Other Comprehensive Income.)

In July 2012, the FASB issued ASC Update No. 2012-02 (Topic 350) *Testing Indefinite – Lived Intangible Assets for Impairment*. This ASC update allows an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite – lived intangible asset is impaired. This assessment should be used as a basis for determining whether it is necessary to perform the quantitative impairment test. An entity would not be required to calculate the fair value of the intangible asset and perform the quantitative test unless the entity determines, based upon its qualitative assessment, that it is more likely than not that its fair value is less than its carrying value. The update further improves previous guidance by expanding upon the examples of events and circumstances that an entity should consider in determining whether it is more likely than not that the fair value of an indefinite – lived intangible asset is less than its carrying amount. The update also allows an entity the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. This ASC update was effective for annual and interim periods beginning after September 15, 2012, with early adoption permitted. The Company implemented this guidance effective October 1, 2012. The effect of implementing this guidance was not material to the Company’s financial position or results of operations.

Recently Issued Standards

In July 2013, the FASB issued ASC Update No. 2013-11 (Topic 740) *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*. This ASC update clarifies the applicable guidance for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward as long as it is available, at the reporting date under the tax law of the applicable jurisdiction, to settle any additional income taxes that would result from the disallowance of a tax position (with certain exceptions). The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. This ASC update is effective for annual and interim periods beginning after December 15, 2013, with early adoption permitted, and is to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect the adoption of ASC Update 2013-11 to have a material impact on its financial position or results of operations.

In March 2013, the FASB issued ASC Update No. 2013-05 (Topic 830) *Foreign Currency Matters-Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force)*. This ASC update clarifies the applicable guidance for the release of the cumulative translation adjustment into net income when a parent either sells all or a portion of its investment in a foreign entity. This guidance is also required to be applied when an entity no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity (with certain exceptions). Additionally, this update clarifies that the sale of an investment in a foreign entity includes events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date in a business combination achieved in stages. This ASC update is effective for annual and interim periods beginning after December 15, 2013, with early adoption permitted, and is to be applied prospectively to derecognition events occurring after the effective date. The Company does not expect the adoption of ASC Update 2013-05 to have a material impact on its financial position or results of operations.

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3. Income Taxes

Income tax expense for the nine months ended September 30, 2013 and 2012 has been computed using estimated annual effective tax rates. These rates are revised, if necessary, at the end of each successive interim period to reflect current estimates of the annual effective tax rates.

For the nine months ended September 30, 2013, the tax provision is comprised of a \$41.8 million U.S. federal income tax expense and \$18.3 million foreign income tax expense. For the nine months ended September 30, 2012, the tax provision was comprised of a \$3.4 million U.S. federal income tax expense and \$30.3 million in foreign income tax expense.

Although most of the Company's non-U.S. income is subject to U.S. federal income tax, certain of its non-U.S. income is not subject to U.S. federal income tax until repatriated. Foreign taxes on this non-U.S. income are accrued at the local foreign tax rate, as opposed to the higher U.S. statutory rate, since these earnings currently are expected to be indefinitely reinvested overseas. This assumption could change, as a result of a sale of the subsidiaries, the receipt of dividends from the subsidiaries, a change in management's intentions, or as a result of various other events. The Company has not made a provision for U.S. taxes on \$14.7 million of non-U.S. income for the nine months ended September 30, 2013. All of the Company's non-U.S. income was subject to U.S. taxes during the same period in 2012.

The Company or its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions, as well as foreign jurisdictions. With few exceptions, the Company and its subsidiaries are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2007. The IRS audits of the years 2009 and 2010 commenced in June 2012. The Company and its subsidiaries are still subject to U.S. state income tax examinations by tax authorities for years after 2006 and foreign examinations for years after 2010.

4. Debt

Debt consists of the following:

	September 30,	December 31,
<i>(in millions)</i>	2013	2012
Senior debentures maturing June 15, 2021	\$ 300.0	\$ 300.0
Senior debentures maturing March 1, 2020	200.0	200.0
Senior debentures maturing October 15, 2025	81.2	120.9
Subordinated debentures maturing March 30, 2053	175.0	—
Subordinated debentures maturing February 3, 2027	59.7	59.7
FHLBB borrowings (secured)	125.0	171.3
Total principal debt	\$ 940.9	\$ 851.9
Unamortized debt discount	(2.2)	(2.5)
Total	\$ 938.7	\$ 849.4

During the second quarter of 2013, the Company repurchased senior debentures maturing October 15, 2025, with a carrying value of \$39.2 million at a cost of \$50.5 million, resulting in a loss of \$11.3 million.

On March 20, 2013, the Company issued \$175.0 million aggregate principal amount of 6.35% subordinated unsecured debentures due March 30, 2053. These debentures pay interest quarterly. The Company may redeem these debentures in whole at any time, or in part from time to time, on or after March 30, 2018, at a redemption price equal to their principal amount plus accrued and unpaid interest. If the debentures are not redeemed in whole, at least \$25.0 million aggregate principal amount of the debentures must remain outstanding.

In 2009, Hanover Insurance received a \$125.0 million Federal Home Loan Bank of Boston ("FHLBB") advance through its membership in the FHLBB. This collateralized advance bears interest at a fixed rate of 5.50% per annum over a twenty-year term. In July 2010, Hanover Insurance committed to an additional \$46.3 million of FHLBB advances. These advances were drawn in several increments from July 2010 to January 2012 and carried fixed interest rates with a weighted average of 3.88%. In January 2013, Hanover Insurance repaid the \$46.3 million of FHLBB advances plus prepayment fees of \$7.8 million for a total payment of \$54.1 million. These advances would have matured on July 30, 2020.

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As collateral to FHLBB, Hanover Insurance pledged government agency securities with a fair value of \$145.2 million and \$200.8 million, for the aggregate borrowings of \$125.0 million and \$171.3 million as of September 30, 2013 and December 31, 2012, respectively. The amount of required collateral decreased in conjunction with the repayment of the \$46.3 million of FHLBB advances. 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. 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 holdings of FHLBB stock were \$9.3 million and \$9.7 million at September 30, 2013 and December 31, 2012, respectively.

At September 30, 2013, the Company was in compliance with the covenants associated with all of its debt indentures and credit arrangements.

5. 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:

<i>(in millions)</i>	September 30, 2013				
	Amortized	Gross	Gross	Fair Value	OTTI
	Cost or	Unrealized	Unrealized		Unrealized
	Cost	Gains	Losses		Losses
Fixed maturities:					
U.S. Treasury and government agencies	\$ 376.3	\$ 4.6	\$ 10.4	\$ 370.5	\$ —
Foreign government	286.6	2.6	0.8	288.4	—
Municipal	1,062.0	47.4	12.5	1,096.9	—
Corporate	3,532.7	183.6	34.4	3,681.9	8.6
Residential mortgage-backed	694.0	22.7	9.6	707.1	1.7
Commercial mortgage-backed	349.1	11.2	4.4	355.9	—
Asset-backed	172.6	2.5	0.3	174.8	—
Total fixed maturities	<u>\$6,473.3</u>	<u>\$ 274.6</u>	<u>\$ 72.4</u>	<u>\$6,675.5</u>	<u>\$ 10.3</u>
Equity securities	<u>\$ 449.0</u>	<u>\$ 50.5</u>	<u>\$ 5.4</u>	<u>\$ 494.1</u>	<u>\$ —</u>
<i>(in millions)</i>	December 31, 2012				
	Amortized	Gross	Gross	Fair Value	OTTI
	Cost or	Unrealized	Unrealized		Unrealized
	Cost	Gains	Losses		Losses
Fixed maturities:					
U.S. Treasury and government agencies	\$ 317.2	\$ 8.8	\$ 0.4	\$ 325.6	\$ —
Foreign government	348.5	4.6	0.2	352.9	—
Municipal	1,010.2	87.2	1.1	1,096.3	—
Corporate	3,512.8	275.4	14.8	3,773.4	9.3
Residential mortgage-backed	769.0	39.4	3.2	805.2	1.7
Commercial mortgage-backed	373.3	23.2	0.3	396.2	—
Asset-backed	198.5	4.1	—	202.6	—
Total fixed maturities	<u>\$6,529.5</u>	<u>\$ 442.7</u>	<u>\$ 20.0</u>	<u>\$6,952.2</u>	<u>\$ 11.0</u>
Equity securities	<u>\$ 299.0</u>	<u>\$ 21.6</u>	<u>\$ 4.8</u>	<u>\$ 315.8</u>	<u>\$ —</u>

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 \$16.4 million and \$20.5 million as of September 30, 2013 and December 31, 2012, respectively.

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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.

<i>(in millions)</i>	September 30, 2013	
	Amortized Cost	Fair Value
Due in one year or less	\$ 444.7	\$ 450.6
Due after one year through five years	2,216.9	2,321.5
Due after five years through ten years	1,904.4	1,959.0
Due after ten years	691.6	706.6
	<u>5,257.6</u>	<u>5,437.7</u>
Mortgage-backed and asset-backed securities	<u>1,215.7</u>	<u>1,237.8</u>
Total fixed maturities	<u>\$6,473.3</u>	<u>\$6,675.5</u>

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B. 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 September 30, 2013 and December 31, 2012.

<i>(in millions)</i>	September 30, 2013					
	12 months or less		Greater than 12 months		Total	
	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	\$ 10.3	\$ 178.4	\$ 0.1	\$ 4.6	\$ 10.4	\$ 183.0
Foreign governments	0.7	73.1	0.1	15.5	0.8	88.6
Municipal	11.5	277.1	1.0	17.8	12.5	294.9
Corporate	20.1	666.2	6.8	37.5	26.9	703.7
Residential mortgage-backed	7.5	218.5	1.6	10.9	9.1	229.4
Commercial mortgage-backed	4.4	113.8	—	0.9	4.4	114.7
Asset-backed	0.3	41.3	—	0.2	0.3	41.5
Total investment grade	54.8	1,568.4	9.6	87.4	64.4	1,655.8
Below investment grade:						
Corporate	4.4	91.9	3.1	27.8	7.5	119.7
Residential mortgage-backed	0.1	3.0	0.4	1.6	0.5	4.6
Total below investment grade	4.5	94.9	3.5	29.4	8.0	124.3
Total fixed maturities	59.3	1,663.3	13.1	116.8	72.4	1,780.1
Equity securities	3.6	128.7	1.8	3.9	5.4	132.6
Total	\$ 62.9	\$ 1,792.0	\$ 14.9	\$ 120.7	\$ 77.8	\$ 1,912.7

<i>(in millions)</i>	December 31, 2012					
	12 months or less		Greater than 12 months		Total	
	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	\$ 0.2	\$ 89.5	\$ 0.2	\$ 8.5	\$ 0.4	\$ 98.0
Foreign governments	0.2	81.2	—	0.4	0.2	81.6
Municipal	0.5	61.9	0.6	24.0	1.1	85.9
Corporate	1.8	224.8	6.6	59.0	8.4	283.8
Residential mortgage-backed	0.5	47.3	2.0	9.4	2.5	56.7
Commercial mortgage-backed	0.2	29.9	0.1	4.9	0.3	34.8
Asset-backed	—	11.4	—	0.3	—	11.7
Total investment grade	3.4	546.0	9.5	106.5	12.9	652.5
Below investment grade:						
Municipal	—	—	—	2.0	—	2.0
Corporate	1.1	26.6	5.3	50.6	6.4	77.2
Residential mortgage-backed	0.1	1.6	0.6	2.5	0.7	4.1
Total below investment grade	1.2	28.2	5.9	55.1	7.1	83.3
Total fixed maturities	4.6	574.2	15.4	161.6	20.0	735.8
Equity securities	4.8	74.4	—	—	4.8	74.4
Total	\$ 9.4	\$ 648.6	\$ 15.4	\$ 161.6	\$ 24.8	\$ 810.2

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The Company views gross unrealized losses on fixed maturities and equity securities as being temporary since it is its assessment that these securities will recover in the near term, allowing the Company to realize the anticipated long-term economic value. 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 make contractual payments as they come due 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.

C. Proceeds from sales

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

	Three Months Ended September 30,					
	2013			2012		
	Proceeds from Sales	Gross Gains	Gross Losses	Proceeds from Sales	Gross Gains	Gross Losses
<i>(in millions)</i>						
Fixed maturities	\$ 83.3	\$ 1.0	\$ 0.9	\$ 78.8	\$ 2.3	\$ 0.3
Equity securities	\$ 10.8	\$ 1.5	\$ —	\$ 13.6	\$ 2.4	\$ —

	Nine Months Ended September 30,					
	2013			2012		
	Proceeds from Sales	Gross Gains	Gross Losses	Proceeds from Sales	Gross Gains	Gross Losses
<i>(in millions)</i>						
Fixed maturities	\$ 369.0	\$ 5.6	\$ 1.9	\$ 486.8	\$ 8.9	\$ 1.9
Equity securities	\$ 89.7	\$ 18.5	\$ 0.3	\$ 17.1	\$ 2.9	\$ 0.2

D. Other-than-temporary impairments

For the three months ended September 30, 2013, total OTTI of fixed maturities and equity securities were \$2.5 million. Of this amount, \$2.1 million was recognized in earnings and the remaining \$0.4 million was recorded as unrealized losses in accumulated other comprehensive income. For the first nine months of 2013, total OTTI of fixed maturities and equity securities were \$4.5 million. Of this amount, \$3.7 million was recognized in earnings and the remaining \$0.8 million was recorded as unrealized losses in accumulated other comprehensive income.

For the three months ended September 30, 2012, total OTTI of fixed maturities and equity securities were \$1.4 million. Of this amount, \$2.2 million was recognized in earnings, including \$0.8 million that was transferred from accumulated other comprehensive income. For the first nine months of 2012, total OTTI of fixed maturities and equity securities were \$5.2 million. Of this amount, \$5.7 million was recognized in earnings, including \$0.5 million that was transferred from accumulated other comprehensive income.

The methodology and significant inputs used to measure the amount of credit losses on fixed maturities in 2013 and 2012 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.

Municipals – the Company utilized cash flow estimates based on bond specific facts and circumstances that may include the political subdivision's taxing authority, the issuer's ability to adjust user fees or other sources of revenue to satisfy its debt obligations and the ability to access insurance or guarantees.

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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.

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Credit losses at beginning of period	\$ 7.3	\$ 13.8	\$ 8.6	\$ 14.5
Credit losses for which an OTTI was not previously recognized	0.1	0.1	0.4	0.5
Additional credit losses on securities for which an OTTI was previously recognized	—	—	0.2	0.6
Reductions for securities sold, matured or called	(0.1)	(2.5)	(1.9)	(4.2)
Reductions for securities reclassified as intended to sell	—	(0.2)	—	(0.2)
Credit losses at the end of period	<u>\$ 7.3</u>	<u>\$ 11.2</u>	<u>\$ 7.3</u>	<u>\$ 11.2</u>

E. Funds at Lloyd's

In accordance with Lloyd's operating guidelines, the Company deposits funds at Lloyd's to support underwriting operations. These funds are available only to fund claim obligations. These assets consisted of approximately \$341 million of fixed maturities and \$28 million of cash and cash equivalents as of September 30, 2013. The Company also deposits funds with various state and governmental authorities in the U.S. For a discussion of the Company's deposits with state and governmental authorities, see also Note 3 – "Investments" of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

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6. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, i.e., exit price, in an orderly transaction between market participants. The Company emphasizes the use of observable market data whenever available in determining fair value. Fair values presented for certain financial instruments are estimates which, in many cases, may differ significantly from the amounts that could be realized upon immediate liquidation. A hierarchy of the three broad levels of fair value are as follows, with the highest priority given to Level 1 as these are the most observable, and the lowest priority given to Level 3:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

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

Level 3 – Unobservable inputs that are supported by little or no market activity.

When more than one level of input is used to determine fair value, the financial instrument is classified as Level 2 or 3 according to the lowest level input that has a significant impact on the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments and have not changed since last year.

Cash and Cash Equivalents

The carrying amount approximates fair value. Cash equivalents primarily consist of money market instruments, which are generally valued using unadjusted quoted prices in active markets that are accessible for identical assets and are classified as Level 1.

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 common to all asset classes include: benchmark U.S. Treasury security yield curves; reported trades of identical or similar fixed maturity securities; broker/dealer quotes of identical or similar fixed maturity securities and structural characteristics such as maturity date, coupon, mandatory principal payment dates, frequency of interest and principal payments, and optional redemption features. Inputs into the fair value applications that are unique by asset class include, but are not limited to:

- U.S. government agencies – determination of direct versus indirect government support and whether any contingencies exist with respect to the timely payment of principal and interest.
- Foreign government – estimates of appropriate market spread versus underlying related sovereign treasury curve(s) dependent on liquidity and direct or contingent support.
- Municipals – overall credit quality, including assessments of the level and variability of: sources of payment such as income, sales or property taxes, levies or user fees; credit support such as insurance; state or local economic and political base; natural resource availability; and susceptibility to natural or man-made catastrophic events such as hurricanes, earthquakes or acts of terrorism.
- Corporate fixed maturities – overall credit quality, including assessments of the level and variability of: economic sensitivity; liquidity; corporate financial policies; management quality; regulatory environment; competitive position; ownership; restrictive covenants; and security or collateral.

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- Residential mortgage-backed securities – estimates of prepayment speeds based upon: historical prepayment rate trends; underlying collateral interest rates; geographic concentration; vintage year; borrower credit quality characteristics; interest rate and yield curve forecasts; government or monetary authority support programs; tax policies; 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 value and supply/demand characteristics of: collateral type such as office, retail, residential, lodging, or other; geographic concentration by region, state, metropolitan statistical area and locale; vintage year; historical collateral performance including defeasance, delinquency, default and special servicer trends; and capital structure support features.
- Asset-backed securities – overall credit quality, including assessments of the underlying collateral type such as credit card receivables, auto loan receivables and equipment lease receivables; geographic diversification; vintage year; historical collateral performance including delinquency, default and casualty trends; economic conditions influencing use rates and resale values; and contract structural support features.

Generally, all prices provided by the pricing 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 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 consists of publicly traded securities, including exchange traded funds, valued at quoted market prices. Level 2 includes securities that are valued using pricing for similar securities and pricing models that incorporate observable inputs. Level 2 also includes fair values obtained from net asset values provided by mutual fund investment managers, upon which subscriptions and redemptions can be executed. Level 3 consists of common or preferred stock of private companies for which observable inputs are not available. 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 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. The Company holds certain equity securities that have been issued by privately-held entities that do not have an active market and for which the pricing service cannot provide fair values. Generally, the Company estimates fair value for these securities based on the issuer's book value and market multiples. These securities are reported as Level 3 as market multiples represent significant unobservable inputs.

Other Investments

Other investments consist primarily of overseas trust funds, for which fair values are provided by the investment manager based on quoted prices for similar instruments in active markets and are reported as Level 2. Also included in other investments are cost basis limited partnerships and mortgage loans. Cost basis limited partnerships' fair values are based on the net asset value provided by the general partner and recent financial information and are reported as Level 3. 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 and are reported as Level 2.

Debt

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. Debt is reported as Level 2.

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

<i>(in millions)</i>	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 602.2	\$ 602.2	\$ 564.8	\$ 564.8
Fixed maturities	6,675.5	6,675.5	6,952.2	6,952.2
Equity securities	494.1	494.1	315.8	315.8
Other investments	165.5	165.9	188.9	189.4
Total financial assets	<u>\$7,937.3</u>	<u>\$7,937.7</u>	<u>\$8,021.7</u>	<u>\$8,022.2</u>
Financial Liabilities				
Debt	<u>\$ 938.7</u>	<u>\$1,005.3</u>	<u>\$ 849.4</u>	<u>\$ 995.2</u>

The Company has processes designed to ensure that the values received from its third party pricing service are accurately recorded, that the data inputs and valuation techniques utilized are appropriate and consistently applied and that the assumptions are reasonable and consistent with the objective of determining fair value. The Company performs a review of the fair value hierarchy classifications and of prices received from its pricing service on a quarterly basis. The Company reviews the pricing services' policies describing its methodology, processes, practices and inputs, including various financial models used to value securities. Also, the Company reviews the portfolio pricing, including securities with changes in prices that exceed a defined threshold are verified to independent sources, if available. If upon review, the Company is not satisfied with the validity of a given price, a pricing challenge would be submitted to the 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 2013 and 2012, 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 following tables provide, for each hierarchy level, the Company's assets that were measured at fair value on a recurring basis.

<i>(in millions)</i>	September 30, 2013			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	\$ 370.5	\$167.1	\$ 203.4	\$ —
Foreign government	288.4	39.2	249.2	—
Municipal	1,096.9	—	1,070.0	26.9
Corporate	3,681.9	—	3,662.3	19.6
Residential mortgage-backed, U.S. agency backed	541.5	—	541.5	—
Residential mortgage-backed, non-agency	165.6	—	165.1	0.5
Commercial mortgage-backed	355.9	—	332.7	23.2
Asset-backed	174.8	—	174.8	—
Total fixed maturities	6,675.5	206.3	6,399.0	70.2
Equity securities	484.8	453.3	—	31.5
Other investments	153.8	—	150.2	3.6
Total investment assets at fair value	<u>\$7,314.1</u>	<u>\$659.6</u>	<u>\$6,549.2</u>	<u>\$105.3</u>

<i>(in millions)</i>	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	\$ 325.6	\$144.2	\$ 181.4	\$ —
Foreign government	352.9	60.9	292.0	—
Municipal	1,096.3	—	1,076.9	19.4
Corporate	3,773.4	—	3,747.0	26.4
Residential mortgage-backed, U.S. agency backed	610.8	—	610.8	—
Residential mortgage-backed, non-agency	194.4	—	193.7	0.7
Commercial mortgage-backed	396.2	—	369.5	26.7
Asset-backed	202.6	—	201.1	1.5
Total fixed maturities	6,952.2	205.1	6,672.4	74.7
Equity securities	306.1	226.9	54.8	24.4
Other investments	172.8	—	169.2	3.6
Total investment assets at fair value	<u>\$7,431.1</u>	<u>\$432.0</u>	<u>\$ 6,896.4</u>	<u>\$ 102.7</u>

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The following tables provide, for each hierarchy level, the Company's estimated fair values of financial instruments that were not carried at fair value:

<i>(in millions)</i>	September 30, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 602.2	\$602.2	\$ —	\$ —
Equity securities	9.3	—	9.3	—
Other investments	12.1	—	2.9	9.2
Liabilities:				
Debt	\$1,005.3	\$ —	\$1,005.3	\$ —

<i>(in millions)</i>	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 564.8	\$ 564.8	\$ —	\$ —
Equity securities	9.7	—	9.7	—
Other investments	16.6	—	4.8	11.8
Liabilities:				
Debt	\$ 995.2	\$ —	\$ 995.2	\$ —

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

<i>(in millions)</i>	Fixed Maturities					Total	Equity and	
	Municipal	Corporate	Residential mortgage-backed, non-agency	Commercial mortgage-backed	Asset-backed		Other	Total Assets
Three Months Ended September 30, 2013								
Balance July 1, 2013	\$ 27.9	\$ 19.5	\$ 0.6	\$ 23.6	\$ —	\$71.6	\$ 32.3	\$ 103.9
Total gains (losses):								
Included in other comprehensive income -net appreciation (depreciation) on available-for-sale securities	(0.1)	0.1	—	—	—	—	2.8	2.8
Sales	(0.9)	—	(0.1)	(0.4)	—	(1.4)	—	(1.4)
Balance September 30, 2013	<u>\$ 26.9</u>	<u>\$ 19.6</u>	<u>\$ 0.5</u>	<u>\$ 23.2</u>	<u>\$ —</u>	<u>\$70.2</u>	<u>\$ 35.1</u>	<u>\$ 105.3</u>
Three Months Ended September 30, 2012								
Balance July 1, 2012	\$ 16.9	\$ 27.4	\$ 0.6	\$ 27.4	\$ 1.1	\$73.4	\$ 29.2	\$ 102.6
Transfers into Level 3	2.6	—	—	—	—	2.6	—	2.6
Total gains (losses):								
Included in earnings	—	0.1	—	—	—	0.1	—	0.1
Included in other comprehensive income -net appreciation (depreciation) on available-for-sale securities	0.3	—	—	0.6	—	0.9	(1.7)	(0.8)
Purchases and sales:								
Purchases	—	—	0.1	—	—	0.1	—	0.1
Sales	(0.2)	(0.1)	—	(0.6)	—	(0.9)	—	(0.9)
Balance September 30, 2012	<u>\$ 19.6</u>	<u>\$ 27.4</u>	<u>\$ 0.7</u>	<u>\$ 27.4</u>	<u>\$ 1.1</u>	<u>\$76.2</u>	<u>\$ 27.5</u>	<u>\$ 103.7</u>

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<i>(in millions)</i>	Fixed Maturities					Total	Equity and	
	Municipal	Corporate	Residential mortgage-backed, non-agency	Commercial mortgage-backed	Asset-backed		Other	Total Assets
Nine Months Ended September 30, 2013								
Balance January 1, 2013	\$ 19.4	\$ 26.4	\$ 0.7	\$ 26.7	\$ 1.5	\$ 74.7	\$ 28.0	\$ 102.7
Transfers into Level 3	9.7	0.2	—	—	—	9.9	—	9.9
Transfers out of Level 3	—	(2.2)	—	—	(1.5)	(3.7)	(0.9)	(4.6)
Total gains (losses):								
Included in earnings	—	0.4	—	—	—	0.4	—	0.4
Included in other comprehensive income -net appreciation (depreciation) on available-for-sale securities	(0.4)	(0.9)	—	(1.4)	—	(2.7)	8.0	5.3
Sales	(1.8)	(4.3)	(0.2)	(2.1)	—	(8.4)	—	(8.4)
Balance September 30, 2013	<u>\$ 26.9</u>	<u>\$ 19.6</u>	<u>\$ 0.5</u>	<u>\$ 23.2</u>	<u>\$ —</u>	<u>\$ 70.2</u>	<u>\$ 35.1</u>	<u>\$ 105.3</u>
Nine Months Ended September 30, 2012								
Balance January 1, 2012	\$ 13.6	\$ 23.8	\$ 5.2	\$ 23.7	\$ 9.2	\$ 75.5	\$ 27.0	\$ 102.5
Transfers into Level 3	2.6	4.3	—	—	—	6.9	0.1	7.0
Transfers out of Level 3	—	(2.1)	—	—	(8.7)	(10.8)	—	(10.8)
Total gains (losses):								
Included in earnings	—	0.4	—	—	—	0.4	(0.2)	0.2
Included in other comprehensive income -net appreciation (depreciation) on available-for-sale securities	1.0	0.5	0.1	(0.1)	—	1.5	1.3	2.8
Purchases and sales:								
Purchases	3.0	1.5	0.1	5.2	1.0	10.8	—	10.8
Sales	(0.6)	(1.0)	(4.7)	(1.4)	(0.4)	(8.1)	(0.7)	(8.8)
Balance September 30, 2012	<u>\$ 19.6</u>	<u>\$ 27.4</u>	<u>\$ 0.7</u>	<u>\$ 27.4</u>	<u>\$ 1.1</u>	<u>\$ 76.2</u>	<u>\$ 27.5</u>	<u>\$ 103.7</u>

There were no transfers between Level 2 and Level 3 during the three months ended September 30, 2013. During the three months ended September 30, 2012 and nine months ended September 30, 2013 and 2012, 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 three months or the nine months ended September 30, 2013 or 2012.

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For the three months ended September 30, 2013, there were no gains or losses due to changes in fair value that were recorded in net income for Level 3 assets. The following table summarizes gains and losses due to changes in fair value that were recorded in net income for Level 3 assets:

<i>(in millions)</i>		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2012		2013	2012
		Net Realized Investment Gains		Net Realized Investment Gains (Losses)	
	Level 3 Assets:				
	Fixed maturities:				
	Corporate	\$	0.1	\$	0.4
	Equity securities		—		(0.2)
	Total assets	\$	<u>0.1</u>	\$	<u>0.2</u>

There were no Level 3 liabilities held by the Company for the three and nine months ended September 30, 2013 and 2012.

The following table provides quantitative information about the significant unobservable inputs used by the Company in the fair value measurements of Level 3 assets. Where discounted cash flows were used in the valuation of fixed maturities, the internally-developed discount rate was adjusted by the significant unobservable inputs shown in the table. Valuations for securities based on broker quotes for which there was a lack of transparency as to inputs used to develop the valuations have been excluded.

<i>(in millions)</i>	Valuation Technique	Significant Unobservable Inputs	September 30, 2013		December 31, 2012	
			Fair Value	Range (Wtd Average)	Fair Value	Range (Wtd Average)
Fixed maturities:						
Municipal	Discounted cash flow	Discount for:	\$26.9		\$19.4	
		Small issue size		1.0-4.0% (2.3%)		1.0-4.0% (3.1%)
		Above-market coupon		0.3-1.0% (0.5%)		0.3-1.0% (0.5%)
		Long maturity		NA		0.5% (0.5%)
Corporate	Discounted cash flow	Discount for:	19.4		26.4	
		Credit stress		1.0-2.0% (1.0%)		1.0-3.0% (1.1%)
		Above-market coupon		0.3-1.0% (0.6%)		0.3-1.0% (0.7%)
		Small issue size		0.3-2.0% (0.5%)		0.3-3.0% (0.5%)
		Long maturity		NA		0.5% (0.5%)
Residential mortgage-backed, non-agency	Discounted cash flow	Discount for:	0.5		0.7	
		Small issue size		0.5% (0.5%)		0.5% (0.5%)
Commercial mortgage-backed	Discounted cash flow	Discount for:	23.2		26.7	
		Credit stress		0.5% (0.5%)		1.0% (1.0%)
		Small issue size		0.5% (0.5%)		0.5% (0.5%)
		Above-market coupon		0.3-0.8% (0.4%)		0.3-0.8% (0.4%)
		Lease structure		0.3% (0.3%)		0.3% (0.3%)
		Long maturity		NA		0.5-0.8% (0.7%)
Asset backed	Discounted cash flow	Discount for:	—		1.5	
		Small issue size		NA		0.7-2.0% (1.6%)
Equity securities	Market comparables	Net tangible asset market multiples	31.4	1.1X (1.1X)	24.3	0.9X (0.9X)
Other	Discounted cash flow	Discount rate	3.6	18.0% (18.0%)	3.6	18.0% (18.0%)

Significant increases (decreases) in any of the above inputs in isolation would result in a significantly lower (higher) fair value measurement. There were no interrelationships between these inputs which might magnify or mitigate the effect of changes in unobservable inputs on the fair value measurement.

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7. 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:

<i>(in millions)</i>	Three Months Ended September 30,			
	2013	2012	2013	2012
	Pension Plans		Postretirement Plans	
Service cost - benefits earned during the period	\$ 0.4	\$ 0.4	\$ —	\$ —
Interest cost	8.0	8.8	0.2	0.6
Expected return on plan assets	(8.9)	(9.6)	—	—
Recognized net actuarial loss	3.7	3.2	0.1	0.1
Amortization of prior service cost	—	0.1	(0.9)	(1.0)
Net periodic pension cost (benefit)	<u>\$ 3.2</u>	<u>\$ 2.9</u>	<u>\$ (0.6)</u>	<u>\$ (0.3)</u>

<i>(in millions)</i>	Nine Months Ended September 30,			
	2013	2012	2013	2012
	Pension Plans		Postretirement Plans	
Service cost - benefits earned during the period	\$ 1.3	\$ 1.2	\$ 0.1	\$ 0.1
Interest cost	23.9	26.4	1.0	1.6
Expected return on plan assets	(26.7)	(29.0)	—	—
Recognized net actuarial loss	11.0	9.6	0.2	0.2
Amortization of prior service cost	—	0.1	(2.8)	(2.9)
Net settlement gain	—	—	(1.6)	—
Net periodic pension cost (benefit)	<u>\$ 9.5</u>	<u>\$ 8.3</u>	<u>\$ (3.1)</u>	<u>\$ (1.0)</u>

In May 2013, the Company settled and defeased the life insurance portion of its postretirement benefits by decreasing the level of death benefits and concurrently guaranteeing the remaining benefits through the purchase of life insurance policies for the plan beneficiaries from an unaffiliated life insurer, resulting in a net settlement gain.

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8. Other Comprehensive Income

The following table provides changes in other comprehensive income.

<i>(in millions)</i>	Three Months Ended September 30,					
	2013			2012		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Unrealized gains (losses) on available-for-sale securities and derivative instruments:						
Unrealized gains (losses) arising during period	\$ (7.1)	\$ 2.2	\$ (4.9)	\$ 90.2	\$ (31.9)	\$58.3
Less:						
Amount of realized gains from sales and other	3.9	2.1	6.0	5.9	2.1	8.0
Portion of other-than-temporary impairment losses recognized in earnings	(2.1)	0.7	(1.4)	(2.3)	0.8	(1.5)
Net unrealized gains (losses)	(8.9)	(0.6)	(9.5)	86.6	(34.8)	51.8
Pension and postretirement benefits:						
Amortization of net actuarial loss and prior service cost recognized as net periodic benefit cost	2.9	(1.0)	1.9	2.4	(0.8)	1.6
Cumulative foreign currency translation adjustment:						
Foreign currency translation recognized during the period	8.7	(3.0)	5.7	11.6	(4.1)	7.5
Other comprehensive income (loss)	\$ 2.7	\$ (4.6)	\$ (1.9)	\$100.6	\$ (39.7)	\$60.9

<i>(in millions)</i>	Nine Months Ended September 30,					
	2013			2012		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Unrealized gains (losses) on available-for-sale securities and derivative instruments:						
Unrealized gains (losses) arising during period (net of pre-tax, ceded unrealized losses of \$0.8 million for the nine months ended September 30, 2013)	\$(172.1)	\$ 60.1	\$(112.0)	\$191.1	\$ (35.6)	\$155.5
Less:						
Amount of realized gains from sales and other	27.7	4.2	31.9	13.8	5.9	19.7
Portion of other-than-temporary impairment losses recognized in earnings	(3.7)	1.3	(2.4)	(6.8)	2.0	(4.8)
Net unrealized gains (losses)	(196.1)	54.6	(141.5)	184.1	(43.5)	140.6
Pension and postretirement benefits:						
Amortization of net actuarial loss and prior service cost recognized as net periodic benefit cost	12.1	(4.2)	7.9	7.0	(2.4)	4.6
Cumulative foreign currency translation adjustment:						
Foreign currency translation recognized during the period	(6.8)	2.4	(4.4)	13.0	(4.6)	8.4
Other comprehensive income (loss)	\$ (190.8)	\$ 52.8	\$ (138.0)	\$204.1	\$ (50.5)	\$153.6

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<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item in the Statement Where Net Income is Presented
	2013	2012	2013	2012	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income				
Unrealized gains (losses) on available-for-sale securities and derivative instruments	\$ 3.9	\$ 5.9	\$ 27.7	\$ 13.9	Net realized gains from sales and other
	(2.1)	(2.2)	(3.7)	(5.7)	Net other-than-temporary impairment losses on investments recognized in earnings
Other	—	(0.1)	—	(0.3)	
	<u>1.8</u>	<u>3.6</u>	<u>24.0</u>	<u>7.9</u>	Total before tax
	<u>2.8</u>	<u>2.9</u>	<u>5.5</u>	<u>7.9</u>	Tax benefit (expense)
	<u>4.6</u>	<u>6.5</u>	<u>29.5</u>	<u>15.8</u>	
	—	—	—	(0.9)	Discontinued operations, net of tax
	<u>4.6</u>	<u>6.5</u>	<u>29.5</u>	<u>14.9</u>	Net of tax
Amortization of defined benefit pension and postretirement plans	2.9	2.4	12.1	7.0	Loss adjustment expenses and other operating expenses
	(1.0)	(0.8)	(4.2)	(2.4)	Tax benefit (expense)
	<u>1.9</u>	<u>1.6</u>	<u>7.9</u>	<u>4.6</u>	Net of tax
Total reclassifications for the period	<u>\$ 6.5</u>	<u>\$ 8.1</u>	<u>\$ 37.4</u>	<u>\$ 19.5</u>	Net of tax

The amount reclassified from accumulated other comprehensive income for the pension and postretirement benefits was allocated approximately 40% to loss adjustment expenses and 60% to other operating expenses for both the three and nine months ended September 30, 2013 and 2012.

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9. Segment Information

The Company's primary business operations include insurance products and services provided through four operating segments. The domestic operating segments are Commercial Lines, Personal Lines and Other, and the Company's international operating segment is Chaucer. Commercial Lines includes commercial multiple peril, commercial automobile, workers' compensation, and other commercial coverages, such as specialty program business, inland marine, management and professional liability and surety. Personal Lines includes personal automobile, homeowners and other personal coverages. Chaucer includes marine and aviation, energy, property, U.K. motor, and casualty and other coverages (which includes international liability, specialist coverages, and syndicate participations). Included in Other are 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. The separate 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 reports interest expense related to debt separately from the earnings of its operating segments. This consists of interest on the Company's senior debentures, subordinated debentures, collateralized borrowings with the Federal Home Loan Bank of Boston, and letter of credit facility. Management evaluates the results of the aforementioned segments based on operating income before taxes (formerly referred to as segment income) which also excludes interest expense on debt. Operating income (loss) before taxes excludes certain items which are included in net income (loss), such as net realized investment gains and losses (including gains and losses on certain derivative instruments). Such gains and losses are excluded since they are determined by interest rates, financial markets and the timing of sales. Also, operating income (loss) before taxes excludes net gains and losses on disposals of businesses, discontinued operations, costs to acquire businesses, restructuring costs, extraordinary items, the cumulative effect of accounting changes and certain other items. Although the items excluded from operating income (loss) before taxes may be important components in understanding and assessing the Company's overall financial performance, management believes that the presentation of operating income (loss) before taxes enhances an investor's understanding of the Company's results of operations by highlighting net income (loss) attributable to the core operations of the business. However, operating income (loss) before taxes should not be construed as a substitute for income (loss) before income taxes and operating income (loss) should not be construed as a substitute for net income (loss).

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Summarized below is financial information with respect to the Company's business segments.

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating revenues:				
Commercial Lines	\$ 530.0	\$ 498.9	\$1,568.4	\$1,461.9
Personal Lines	385.1	391.6	1,165.1	1,168.8
Chaucer	283.4	259.2	800.8	762.7
Other	2.3	3.0	7.6	8.6
Total	<u>1,200.8</u>	<u>1,152.7</u>	<u>3,541.9</u>	<u>3,402.0</u>
Net realized investment gains	1.0	5.0	22.8	4.7
Total revenues	<u>\$1,201.8</u>	<u>\$1,157.7</u>	<u>\$3,564.7</u>	<u>\$3,406.7</u>
Operating income (loss) before income taxes:				
Commercial Lines:				
GAAP underwriting gain (loss)	\$ 2.8	\$ (27.8)	\$ (9.8)	\$ (75.0)
Net investment income	35.3	35.6	107.4	106.3
Other income	0.4	0.3	0.1	1.3
Commercial Lines operating income	<u>38.5</u>	<u>8.1</u>	<u>97.7</u>	<u>32.6</u>
Personal Lines:				
GAAP underwriting income (loss)	18.0	(8.4)	27.8	(14.6)
Net investment income	18.6	21.6	56.7	64.5
Other income	1.1	1.5	3.6	4.6
Personal Lines operating income	<u>37.7</u>	<u>14.7</u>	<u>88.1</u>	<u>54.5</u>
Chaucer:				
GAAP underwriting income	20.8	30.7	78.5	64.6
Net investment income	10.2	10.2	31.4	29.8
Other income	1.4	1.1	0.3	2.9
Chaucer operating income	<u>32.4</u>	<u>42.0</u>	<u>110.2</u>	<u>97.3</u>
Other:				
GAAP underwriting loss	(0.2)	(1.1)	(2.3)	(2.3)
Net investment income	1.6	1.7	5.4	5.7
Other net expenses	(2.8)	(2.5)	(8.6)	(8.2)
Other operating loss	<u>(1.4)</u>	<u>(1.9)</u>	<u>(5.5)</u>	<u>(4.8)</u>
Operating income before interest expense and income taxes	<u>107.2</u>	<u>62.9</u>	<u>290.5</u>	<u>179.6</u>
Interest on debt	(16.6)	(14.6)	(48.7)	(46.7)
Operating income before income taxes	<u>90.6</u>	<u>48.3</u>	<u>241.8</u>	<u>132.9</u>
Non-operating income items:				
Net realized investment gains	1.0	5.0	22.8	4.7
Loss on real estate	(4.7)	—	(4.7)	—
Net loss from repayment of debt	—	—	(19.1)	—
Net benefit (costs) related to acquired businesses	(0.2)	0.2	—	(2.2)
Net foreign exchange gains (losses)	(0.6)	(0.3)	0.1	(0.3)
Income before income taxes	<u>\$ 86.1</u>	<u>\$ 53.2</u>	<u>\$ 240.9</u>	<u>\$ 135.1</u>

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The Company recognized \$7.5 million in net foreign currency transaction gains in the Statement of Income during the three months ended September 30, 2013 compared to \$1.0 million in net foreign currency losses during the three months ended September 30, 2012. The Company recognized \$0.2 million in net foreign currency transaction losses in the Statement of Income during the nine months ended September 30, 2013 compared to \$3.0 million in net foreign currency gains during the nine months ended September 30, 2012.

In September 2013, the Company decided to consolidate its operations in Howell, Michigan from two buildings into one building. This resulted in a plan to relocate the employees and pursue the sale of one of the buildings. Accordingly, the Company recognized a loss of \$4.7 million. This is included in other operating expenses in the Consolidated Statements of Income during the three and nine months ended September 30, 2013.

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

<i>(in millions)</i>	September 30,	December 31,
	2013	2012
	Identifiable Assets	
U.S. Companies	\$ 8,918.4	\$ 8,909.6
Chaucer	4,424.1	4,444.8
Discontinued operations	120.8	130.5
Total	<u>\$ 13,463.3</u>	<u>\$ 13,484.9</u>

The Company reviews the assets of its U.S. Companies collectively and does not allocate them between the Commercial Lines, Personal Lines and Other segments.

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10. Stock-based Compensation

Compensation cost and the related tax benefits were as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock-based compensation expense	\$ 3.2	\$ 3.5	\$ 8.9	\$ 9.8
Tax benefit	(1.1)	(1.2)	(3.1)	(3.4)
Stock-based compensation expense, net of taxes	<u>\$ 2.1</u>	<u>\$ 2.3</u>	<u>\$ 5.8</u>	<u>\$ 6.4</u>

Stock Options

Information on the Company's stock option plans is summarized below.

<i>(in whole shares and dollars)</i>	Nine Months Ended September 30,			
	2013		2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	2,892,882	\$ 38.28	2,715,430	\$ 38.57
Granted	537,800	42.53	517,500	36.81
Exercised	(965,861)	33.80	(56,874)	29.33
Forfeited or cancelled	(183,250)	41.60	(90,574)	41.84
Expired	—	—	(159,850)	44.05
Outstanding, end of period	<u>2,281,571</u>	<u>40.91</u>	<u>2,925,632</u>	38.06

Restricted Stock Units

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

<i>(in whole shares and dollars)</i>	Nine Months Ended September 30,			
	2013		2012	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Time-based restricted stock units:				
Outstanding, beginning of period	750,837	\$ 40.15	768,529	\$ 40.17
Granted	139,682	43.21	172,691	36.99
Vested	(265,209)	39.59	(127,966)	35.66
Forfeited	(60,042)	41.25	(43,105)	40.35
Outstanding, end of period	<u>565,268</u>	<u>41.05</u>	<u>770,149</u>	40.19
Performance-based and market-based restricted stock units:				
Outstanding, beginning of period	132,775	\$ 39.97	69,500	\$ 45.37
Granted	82,795	41.85	94,000	36.75
Forfeited	(22,700)	40.83	(1,125)	41.16
Outstanding, end of period	<u>192,870</u>	<u>40.68</u>	<u>162,375</u>	40.34

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 200% of the shares disclosed, which varies based on grant year and individual award. Increases above the 100% target level are reflected as granted in the period in which performance-based stock unit goals are achieved. Decreases below the 100% target level are reflected as forfeited.

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In the first three months of 2013 and 2012, the Company granted market-based awards totaling 76,175 and 90,250, respectively, to certain members of senior management, which are included in the table above as performance and market-based restricted stock activity. The vesting of these stock units is based on the relative total shareholder return (“TSR”) of the Company. This metric is generally based on a three-year average relative TSR as compared to a Property and Casualty Index of peer companies. The fair value of market based awards was estimated at the date of grant using a valuation model. These units have the potential to range from 0% to 150% of the shares disclosed.

11. Earnings Per Share and Shareholders’ Equity Transactions

The following table provides weighted average share information used in the calculation of the Company’s basic and diluted earnings per share:

<i>(in millions, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Basic shares used in the calculation of earnings per share	43.8	44.6	44.1	44.8
Dilutive effect of securities:				
Employee stock options	0.4	0.2	0.3	0.2
Non-vested stock grants	0.4	0.4	0.5	0.4
Diluted shares used in the calculation of earnings per share	44.6	45.2	44.9	45.4
Per share effect of dilutive securities on income (loss) from continuing operations and net income (loss)	\$ (0.03)	\$ (0.02)	\$ (0.07)	\$ (0.03)

Diluted earnings per share for the three months ended September 30, 2012 excludes 2.1 million of common shares issuable under the Company’s stock compensation plans, because their effect would be antidilutive. All of the common shares issuable under the Company’s stock compensation plan were included in the diluted earnings per share for the three months ended September 30, 2013. Diluted earnings per share for the nine months ended September 30, 2013 and 2012 excludes 0.7 million and 1.8 million, respectively, of common shares issuable under the Company’s stock compensation plans, because their effect would be antidilutive.

Since October 2007 and through September 2013, the Company’s Board of Directors has authorized aggregate repurchases of the Company’s common stock of up to \$600 million, including a \$100 million increase in the program in May 2013. As of September 30, 2013, the Company has \$137.0 million available for repurchases under these repurchase authorizations. 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. During the first nine months of 2013, the Company purchased 1.6 million shares of the Company’s common stock at a cost of \$78.2 million.

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12. 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., and 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 claims that the Plan understated her distributions and those of similarly situated participants by failing to pay an additional so-called "whipsaw" amount reflecting the present value of an estimate of future interest credits from the date of the lump sum distribution to each participant's retirement age of 65 discounted by applicable IRS rates.

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 included: (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 against the Company 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 filed a Motion for Reconsideration of the District Court's decision to dismiss the additional claims, which was denied with respect to the claims set forth in (a) and (b) above; however, the Court did allow the fiduciary duty claim regarding plaintiffs' "whipsaw" claim to stand. On June 22, 2012, the Company and the Plan filed a Partial Motion for Summary Judgment to dismiss the claims of one of the plaintiffs who received his lump sum distribution after December 31, 2003, on the basis that certain amendments to the Plan effective January 1, 2004 eliminated any basis for payment of an additional "whipsaw" amount to participants who received lump sum distributions after December 31, 2003. On December 13, 2012, the Court held this motion in abeyance pending a ruling on Plaintiffs' Motion for Class Certification. Plaintiffs filed their Motion for Class Certification on January 14, 2013. On February 8, 2013, the Company and the Plan informed the Court that they did not oppose the certification of a class. On October 2, 2013, the Court granted the Company and the Plan's Partial Motion for Summary Judgment and dismissed with prejudice the claims of the named plaintiff and putative class members who received lump sum distributions after December 31, 2003. The Court also granted the Plaintiffs' unopposed motion for class certification as to the remaining members of the putative class. In a hearing on October 23, 2013, Plaintiffs argued that the Court's October 2, 2013 dismissal order only applied to the claims of the named plaintiff and not the claims of similarly situated putative class members. The Company opposed this argument. The Court said it would consider the parties' positions and issue an order clarifying the scope of the dismissal order.

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. 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. 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. Any adverse judgment in this case against the Plan 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.

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 are not expected to have a material effect on its financial position, although they could have a material effect on the results of operations for a particular quarter or annual period.

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There were no subsequent events requiring adjustment to the financial statements and 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 its subsidiaries ("THG"). Consolidated results of operations and financial condition are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). This discussion should be read in conjunction with the interim consolidated financial statements and related footnotes included elsewhere in this Quarterly Report on Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2013.

Results of operations include the accounts of The Hanover Insurance Company ("Hanover Insurance") and Citizens Insurance Company of America ("Citizens"), our principal U.S. domiciled property and casualty companies; Chaucer Holdings plc ("Chaucer"), our United Kingdom (U.K.) domiciled specialist insurance underwriting group which operates through the Society and Corporation of Lloyd's ("Lloyd's"), and certain other insurance and non-insurance subsidiaries. Additionally, results of operations include our discontinued operations, consisting primarily of our former life insurance businesses, accident and health business and prior to April 30, 2012, our third party administration business.

Executive Overview

Business operations consist of four operating segments: Commercial Lines, Personal Lines, Chaucer and Other.

Operating income (formally referred to as segment income) before interest expense and income taxes was \$290.5 million for the nine months ended September 30, 2013, compared to \$179.6 million in the same period in 2012, an increase of \$110.9 million. This increase is primarily due to lower catastrophe and non-catastrophe related losses in the first nine months of 2013, and higher favorable development on prior years' loss and loss adjustment expense ("LAE") reserves ("prior years' loss reserves"). Pre-tax catastrophe losses were \$112.1 million for the nine months ended September 30, 2013, compared to \$166.6 million in the same period in 2012, a decrease of \$54.5 million. There was favorable development on prior years' loss reserves of \$57.4 million for the nine months ended September 30, 2013, compared to favorable development of \$8.3 million in the same period in 2012.

In several recent years, weather-related catastrophe and non-catastrophe losses have been in excess of longer term averages. Pricing in our Commercial and Personal Lines remains strong as the industry continues to respond to these recent weather-related losses, as well as to the earnings impact of reduced investment income as a result of low interest rates, and other factors. We are continuing efforts to improve our underwriting results in both our Commercial and Personal Lines, including through rate increases and improvements to our mix of business.

Commercial Lines

We believe our unique approach to the small commercial market, distinctiveness in the middle market, and continued development of specialty lines provides us with a diversified portfolio of products and delivers significant value to agents and policyholders. The small commercial and middle market businesses are expected to contribute to premium growth in Commercial Lines over the next several years as we continue to pursue our core strategy of developing strong partnerships with agents, distinctive products, franchise value through limited distribution, and industry segmentation. Growth in our specialty lines continues to be an important part of our strategy, with the expansion of our product offerings in these lines supported by several acquisitions of specialized business.

We believe these efforts have driven, and will continue to drive, improvement in our overall mix of business and ultimately our underwriting profitability. Commercial Lines net premiums written grew by 4.8% in the first nine months of 2013, driven by our core commercial businesses. This growth is primarily due to rate increases, strong retention and targeted new business expansion.

Underwriting results improved in the first nine months of 2013, as compared to the same period in 2012, primarily due to decreased catastrophe related losses in the current year and to lower unfavorable development on prior years' loss reserves. Unfavorable development on prior years' loss reserves in the first nine months of 2013 was \$3.0 million, compared to unfavorable development of \$19.4 million during 2012.

The competitive nature of the Commercial Lines market requires us to be highly disciplined in our underwriting process to ensure that we write business at acceptable margins. Also, we continue to seek rate increases across our lines of business. Rate actions in our commercial automobile and workers' compensation lines, and our property coverages in our commercial multiple peril line, have been supported by industry wide loss trends and severity.

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Personal Lines

Personal Lines focuses on partnering with high quality, value-oriented agencies that deliver consultative selling and stress the importance of account rounding (the conversion of single policy customers to accounts with multiple policies and additional coverages). Approximately 74% of our policies in force are account business. We are focused on making investments that help maintain profitability, build a distinctive position in the market, help diversify us geographically from our historical core states of Michigan, Massachusetts, New York and New Jersey, and provide us with profitable growth opportunities.

Underwriting results improved in the first nine months of 2013, as compared to the same period in 2012, primarily due to lower catastrophe losses, improved non-catastrophe current accident year results and lower net unfavorable development on prior years' loss reserves. Unfavorable development on prior years' loss reserves for the nine months ended September 30, 2013 was \$10.5 million, compared to unfavorable development of \$15.2 million for the nine months ended September 30, 2012. We continue to seek additional rate increases, subject to regulatory and competitive considerations, in our personal automobile line, particularly as a result of recent trends of higher loss severity in bodily injury and personal injury protection claims. We also continue to seek rate increases in our homeowners lines as a result of the catastrophe and non-catastrophe weather-related losses that the industry experienced in the past several years.

Chaucer

Chaucer deploys specialist underwriters in over 30 major insurance and reinsurance classes, including energy, marine and aviation, U.K. motor, property, and casualty and other coverages. We obtain business through Lloyd's, the leading international insurance and reinsurance market, which provides us with access to specialist business in over 200 countries and territories worldwide through its international licenses, brand reputation and strong security rating. Our underwriting strength, diverse portfolio and Lloyd's membership underpin our ability to actively manage the scale, composition and profitable development of this business.

Underwriting results improved in the first nine months of 2013, as compared to the same period in 2012, primarily due to higher favorable development on prior years' loss reserves. Favorable development on prior years' loss reserves for the nine months ended September 30, 2013 was \$71.8 million, compared to \$43.9 million for the nine months ended September 30, 2012, a change of \$27.9 million. Chaucer net premiums written grew by 16.4% in the first nine months of 2013, primarily due to an increase in Chaucer's economic interests in Syndicate 1084 to 98% for 2013, up from 84% in 2012. We also benefited from favorable rates in the certain marine and property lines, following recent high levels of insured market losses. Rates in the energy market remained under pressure following an absence of major losses in 2012 and the first nine months of 2013. Also, net premiums written in our energy line were lower due to a reduction of estimated premiums for both the exploration and production coverage class and the construction coverage class. The aviation and casualty markets continued to remain soft as a result of low loss activity and industry over-capacity. U.K. motor market rates continued their modest decline, following the significant increases in 2010 and 2011. In response, we continue to actively manage Chaucer's underwriting portfolio, using our expertise, distinctive underwriting capabilities and market knowledge to target specific attractive underwriting opportunities despite an uncertain international Lloyd's market environment.

Description of Operating Segments

Primary business operations include insurance products and services currently provided through four operating segments. Our domestic operating segments are Commercial Lines, Personal Lines and Other. Our international operating segment is Chaucer. Commercial Lines includes commercial multiple peril, commercial automobile, workers' compensation and other commercial coverages, such as specialty program business, inland marine, management and professional liability and surety. Personal Lines includes personal automobile, homeowners and other personal coverages. Chaucer includes marine and aviation, energy, property, U.K. motor, and casualty and other coverages (which includes international liability, specialist coverages, and syndicate participations). Included in Other are 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.

We report interest expense on debt separately from the earnings of our operating segments. This consists of interest on our senior debentures, subordinated debentures, collateralized borrowings with the Federal Home Loan Bank of Boston ("FHLBB"), and letter of credit facility.

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Results of Operations – Consolidated

Consolidated net income for the three months ended September 30, 2013 was \$61.3 million, compared to \$40.4 million for the three months ended September 30, 2012, an increase of \$20.9 million. Consolidated net income for the nine months ended September 30, 2013 was \$180.9 million, compared to \$110.9 million for the nine months ended September 30, 2012, an increase of \$70.0 million. The increase in both periods is primarily due to improved operating results after taxes, which was principally attributable to a decrease in catastrophe losses and higher favorable development on prior years' loss reserves. In addition, for the nine months ended September 30, 2013, net income increased as a result of higher realized gains from the sale of securities, partially offset by losses resulting from the repayment of debt.

In addition to consolidated net income, we assess our financial performance based upon pre-tax "operating income (loss)," and we assess the operating performance of each of our four operating segments based upon the pre-tax operating income (loss) generated by each segment. We formerly referred to these pre-tax measures as "segment income (loss)." Operating income (loss) before taxes excludes interest expense on debt and certain other items which we believe are not indicative of our core operations, such as net realized investment gains and losses (including net gains and losses on certain derivative instruments). Such gains and losses are excluded since they are determined by interest rates, financial markets and the timing of sales. Also, operating income (loss) before taxes excludes net gains and losses on disposals of businesses, discontinued operations, costs to acquire businesses, restructuring costs, extraordinary items, the cumulative effect of accounting changes and certain other items. Although the items excluded from operating income (loss) before taxes may be important components in understanding and assessing our overall financial performance, we believe a discussion of operating income before taxes enhances an investor's understanding of our results of operations by segregating income attributable to the core operations of the business. However, operating income (loss) before taxes should not be construed as a substitute for income (loss) before income taxes and operating income (loss) should not be construed as a substitute for net income (loss).

Catastrophe losses and prior years' reserve development are significant components in understanding and assessing the financial performance of our business. Management reviews and evaluates catastrophes and prior years' reserve development separately from the other components of earnings. Catastrophes and prior years' reserve development are not predictable as to timing or the amount that will affect the results of our operations and have affected our results in the past few years. Management believes that providing certain financial metrics and trends excluding the effects of catastrophes and prior years' reserve development helps investors to understand the variability in periodic earnings and to evaluate the underlying performance of our operations.

The following table reflects operating income and a reconciliation of total operating income to consolidated net income.

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating income (loss) before interest expense and income taxes:				
Commercial Lines	\$ 38.5	\$ 8.1	\$ 97.7	\$ 32.6
Personal Lines	37.7	14.7	88.1	54.5
Chaucer	32.4	42.0	110.2	97.3
Other	(1.4)	(1.9)	(5.5)	(4.8)
Operating income before interest expense and income taxes	107.2	62.9	290.5	179.6
Interest expense on debt	(16.6)	(14.6)	(48.7)	(46.7)
Operating income before income taxes	90.6	48.3	241.8	132.9
Income tax expense on operating income	(29.7)	(15.8)	(74.2)	(44.4)
Operating income	60.9	32.5	167.6	88.5
Net realized investment gains	1.0	5.0	22.8	4.7
Loss on real estate	(4.7)	—	(4.7)	—
Net loss from repayment of debt	—	—	(19.1)	—
Net benefit (costs) related to acquired businesses	(0.2)	0.2	—	(2.2)
Net foreign exchange gains (losses)	(0.6)	(0.3)	0.1	(0.3)
Income tax benefit on non-operating items	4.9	3.5	14.1	10.7
Income from continuing operations, net of taxes	61.3	40.9	180.8	101.4
Net gain (loss) from discontinued operations, net taxes	—	(0.5)	0.1	9.5
Net income	\$ 61.3	\$ 40.4	\$ 180.9	\$ 110.9

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Results of Operations – Segments

The following is our discussion and analysis of the results of operations by business segment. The operating results are presented before interest expense, 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:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating revenues				
Net premiums written	<u>\$1,181.9</u>	<u>\$1,120.1</u>	<u>\$3,501.2</u>	<u>\$3,334.5</u>
Net premiums earned	<u>1,124.7</u>	<u>1,071.0</u>	<u>3,309.8</u>	<u>3,156.6</u>
Net investment income	<u>65.7</u>	<u>69.1</u>	<u>200.9</u>	<u>206.3</u>
Other income	<u>10.4</u>	<u>14.2</u>	<u>31.2</u>	<u>43.8</u>
Total operating revenues	<u>1,200.8</u>	<u>1,154.3</u>	<u>3,541.9</u>	<u>3,406.7</u>
Losses and operating expenses				
Losses and LAE	<u>695.9</u>	<u>708.4</u>	<u>2,071.4</u>	<u>2,101.9</u>
Amortization of deferred acquisition costs	<u>243.9</u>	<u>235.8</u>	<u>719.1</u>	<u>697.0</u>
Other operating expenses	<u>153.8</u>	<u>147.2</u>	<u>460.9</u>	<u>428.2</u>
Total losses and operating expenses	<u>1,093.6</u>	<u>1,091.4</u>	<u>3,251.4</u>	<u>3,227.1</u>
Operating income before interest expense and income taxes	<u>\$ 107.2</u>	<u>\$ 62.9</u>	<u>\$ 290.5</u>	<u>\$ 179.6</u>

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Operating income before interest expense and income taxes was \$107.2 million in the three months ended September 30, 2013, compared to \$62.9 million in the three months ended September 30, 2012, an increase of \$44.3 million. Catastrophe related activity in the quarter was \$30.6 million, compared to \$51.9 million in the same period of 2012, a decrease of \$21.3 million. Excluding the impact of catastrophe related activity, segment earnings increased by \$23.0 million. This increase was primarily due to higher favorable development on prior years' loss reserves. Favorable development on prior years' loss reserves was \$23.6 million in the quarter, compared to favorable development of \$8.3 million in the same period in 2012. This increase in favorable development was primarily driven by Chaucer.

Net premiums written grew by \$61.8 million in the three months ended September 30, 2013, compared to the three months ended September 30, 2012, and net premiums earned grew by \$53.7 million. Chaucer accounted for \$52.1 million of the net premiums written increase and \$25.7 million of the net premiums earned increase, primarily due to the aforementioned increase in Chaucer's economic interests in Syndicate 1084. Growth in our core commercial businesses, resulting from rate increases, strong retention and targeted new business expansion, was partially offset by a decrease in our Personal Lines net premiums written.

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Production and Underwriting Results

The following table summarizes premiums written on a gross and net basis, net premiums earned and loss, LAE, expense and combined ratios for the Commercial Lines, Personal Lines and Chaucer segments. Loss, LAE, catastrophe loss and combined ratios shown below include prior year reserve development. These items are not meaningful for our Other segment.

<i>(dollars in millions)</i>	Three Months Ended September 30, 2013						
	Gross Premiums	Net Premiums	Net Premiums	Catastrophe	Loss & LAE	Expense	Combined
	Written	Written	Earned	Loss Ratios	Ratios	Ratios	Ratios
Commercial Lines	\$ 601.7	\$ 530.5	\$ 492.7	1.7	61.8	37.4	99.2
Personal Lines	398.4	372.9	363.4	2.8	66.8	27.5	94.3
Chaucer	313.7	278.5	268.6	4.4	55.4	36.9	92.3
Total	<u>\$1,313.8</u>	<u>\$ 1,181.9</u>	<u>\$ 1,124.7</u>	2.7	61.9	34.1	96.0

<i>(dollars in millions)</i>	Three Months Ended September 30, 2012						
	Gross Premiums	Net Premiums	Net Premiums	Catastrophe	Loss & LAE	Expense	Combined
	Written	Written	Earned	Loss Ratios	Ratios	Ratios	Ratios
Commercial Lines	\$ 571.6	\$ 500.0	\$ 461.1	3.7	68.6	37.2	105.8
Personal Lines	430.3	393.7	366.5	7.6	74.4	27.0	101.4
Chaucer	290.0	226.4	242.9	3.0	48.7	38.7	87.4
Total	<u>\$1,291.9</u>	<u>\$ 1,120.1</u>	<u>\$ 1,070.5</u>	4.8	66.1	34.1	100.2

The following table summarizes net premiums written, and loss and LAE and catastrophe loss ratios by line of business for the Commercial Lines and Personal Lines segments. Loss and LAE and catastrophe loss ratios include prior year reserve development.

<i>(dollars in millions)</i>	Three Months Ended September 30,					
	2013			2012		
	Net Premiums	Loss & LAE	Catastrophe	Net Premiums	Loss & LAE	Catastrophe
	Written	Ratios	Loss Ratios	Written	Ratios	Loss Ratios
Commercial Lines:						
Commercial multiple peril	\$ 185.5	54.9	5.2	\$ 172.9	63.6	5.9
Commercial automobile	81.1	74.7	0.5	71.8	76.0	0.4
Workers' compensation	57.3	65.4	—	49.9	66.7	—
Other commercial	206.6	61.4	—	205.4	70.4	4.1
Total Commercial Lines	<u>\$ 530.5</u>	61.8	1.7	<u>\$ 500.0</u>	68.6	3.7
Personal Lines:						
Personal automobile	\$ 225.8	73.1	0.2	\$ 239.0	76.7	1.6
Homeowners	136.1	57.5	7.5	143.2	73.0	18.6
Other personal	11.0	43.8	2.9	11.5	43.4	3.8
Total Personal Lines	<u>\$ 372.9</u>	66.8	2.8	<u>\$ 393.7</u>	74.4	7.6

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The following table summarizes premiums written on a gross and net basis and net premiums earned by line of business for the Chaucer segment.

<i>(in millions)</i>	Three Months Ended September 30,					
	2013			2012		
	Gross Premiums	Net Premiums	Net Premiums	Gross Premiums	Net Premiums	Net Premiums
	Written	Written	Earned	Written	Written	Earned
Chaucer:						
Energy	\$ 48.0	\$ 42.1	\$ 42.0	\$ 42.2	\$ 36.1	\$ 52.1
Marine and aviation	84.7	71.4	67.8	67.8	52.4	56.9
U.K. motor	77.5	77.6	72.1	89.7	78.3	60.6
Property	48.1	42.6	49.6	41.6	29.7	43.6
Casualty and other	55.4	44.8	37.1	48.7	29.9	29.7
Total Chaucer	\$ 313.7	\$ 278.5	\$ 268.6	\$ 290.0	\$ 226.4	\$ 242.9

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

<i>(in millions)</i>	Three Months Ended September 30,									
	2013					2012				
	Commercial	Personal	Chaucer	Other	Total	Commercial	Personal	Chaucer	Other	Total
	Lines	Lines	Chaucer	Other	Total	Lines	Lines	Chaucer	Other	Total
GAAP underwriting profit (loss), excluding prior year reserve development and catastrophes	\$ 13.6	\$ 30.4	\$ 4.8	\$ (0.4)	\$ 48.4	\$ (6.4)	\$ 22.9	\$ 20.8	\$ (0.3)	\$ 37.0
Prior year favorable (unfavorable) loss and LAE reserve development	(2.3)	(2.1)	27.8	0.2	23.6	(4.4)	(3.6)	17.1	(0.8)	8.3
Pre-tax catastrophe effect	(8.5)	(10.3)	(11.8)	—	(30.6)	(17.0)	(27.7)	(7.2)	—	(51.9)
GAAP underwriting profit (loss)	2.8	18.0	20.8	(0.2)	41.4	(27.8)	(8.4)	30.7	(1.1)	(6.6)
Net investment income	35.3	18.6	10.2	1.6	65.7	35.6	21.6	10.2	1.7	69.1
Fees and other income	2.0	3.1	4.6	0.7	10.4	2.2	3.5	6.1	2.4	14.2
Other operating expenses	(1.6)	(2.0)	(3.2)	(3.5)	(10.3)	(1.9)	(2.0)	(5.0)	(4.9)	(13.8)
Operating income (loss) before income taxes	\$ 38.5	\$ 37.7	\$ 32.4	\$ (1.4)	\$ 107.2	\$ 8.1	\$ 14.7	\$ 42.0	\$ (1.9)	\$ 62.9

Commercial Lines

Commercial Lines net premiums written was \$530.5 million in the three months ended September 30, 2013, compared to \$500.0 million in the three months ended September 30, 2012. This \$30.5 million increase was primarily driven by rate increases, strong retention, and targeted new business expansion, partially offset by exposure management actions that focus on reducing volatility from weather-related events and driving profit improvement.

Commercial Lines underwriting profit in the three months ended September 30, 2013 was \$2.8 million, compared to a loss of \$27.8 million in the three months ended September 30, 2012. This improvement reflects decreased catastrophe and non-catastrophe losses and lower unfavorable development on prior years' loss reserves. Catastrophe losses for the three months ended September 30, 2013 were \$8.5 million compared to \$17.0 million for the three months ended September 30, 2012, a decrease of \$8.5 million. Unfavorable development on prior years' loss reserves for the three months ended September 30, 2013 was \$2.3 million compared to unfavorable development of \$4.4 million for the three months ended September 30, 2012, a change of \$2.1 million.

Commercial Lines current accident year underwriting profit, excluding catastrophes, was \$13.6 million for the three months ended September 30, 2013, compared to an underwriting loss of \$6.4 million for the three months ended September 30, 2012. This \$20.0 million improvement in current accident year results was primarily due to fewer large losses and underwriting actions in our commercial multiple peril line, and partially attributable to increased pricing across all lines.

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We believe that industry pricing continues to be strong due to recent weather-related losses, as well as to reduced investment income as a result of low interest rates, and other factors. We are continuing efforts to improve our underwriting results, including through increased rates; however, our ability to increase Commercial Lines net premiums written while maintaining or improving underwriting results may be affected by price competition and the current challenging economic environment. We also expect to continue our efforts to reduce our property exposures in certain geographic areas and classes of business, with a goal of improving our longer-term profitability and reducing earnings volatility. Also, in the past several years, weather-related catastrophe and non-catastrophe losses have been in excess of longer term averages. We continue to monitor these trends and consider them in our rate actions.

Personal Lines

Personal Lines net premiums written was \$372.9 million in the three months ended September 30, 2013, compared to \$393.7 million in the three months ended September 30, 2012, a decrease of \$20.8 million. The primary factors contributing to this overall change were our ongoing property-focused exposure management actions and actions to improve underwriting results in all lines of business. These factors were partially offset by higher rates in both our homeowners and personal automobile lines.

Net premiums written in the personal automobile line of business for the three months ended September 30, 2013 were \$225.8 million compared to \$239.0 million for the three months ended September 30, 2012, a decrease of \$13.2 million. This decrease was primarily due to a decline in policies in force of 9.4%, primarily from ongoing actions to improve underwriting results and exposure management actions, partially offset by rate increases. Net premiums written in the homeowners line of business for the three months ended September 30, 2013 were \$136.1 million compared to \$143.2 million in the three months ended September 30, 2012, a decrease of \$7.1 million. This decrease was primarily due to a decline in policies in force of 9.9%, from the aforementioned exposure management actions, partially offset by rate increases.

Personal Lines underwriting profit for the three months ended September 30, 2013 was \$18.0 million, compared to an underwriting loss of \$8.4 million for the three months ended September 30, 2012, an improvement of \$26.4 million. This was primarily due to lower catastrophe losses and improved non-catastrophe current accident year results. Catastrophe losses for the three months ended September 30, 2013 were \$10.3 million, compared to \$27.7 million for the three months ended September 30, 2012, a decrease of \$17.4 million.

Personal Lines current accident year underwriting profit, excluding catastrophes, was \$30.4 million in the three months ended September 30, 2013, compared to \$22.9 million for the three months ended September 30, 2012. This \$7.5 million improvement in non-catastrophe current accident year results was primarily due to lower losses in both our homeowners and personal automobile lines, which we attribute to rate increases and profit improvement actions.

Although we have been able to obtain rate increases in our Personal Lines markets and believe that our ability to obtain these increases will continue, our ability to maintain Personal Lines net premiums written and to maintain and improve underwriting results may be affected by price competition, recent weather-related losses, our exposure management actions, recent loss trends in bodily injury and personal injury protection claims, and regulatory and legal developments. In several recent years, weather-related catastrophe and non-catastrophe losses have been in excess of longer term averages. We monitor these trends and consider them in our rate actions. We expect our rate and exposure actions to result in a decline in premiums and policies in force, although any decline in premium should be moderated by our rate actions.

Chaucer

Chaucer's net premiums written was \$278.5 million in the three months ended September 30, 2013, compared to \$226.4 million in the three months ended September 30, 2012, an increase of \$52.1 million, or 23.0%. This growth was primarily due to an increase in Chaucer's economic interests in Syndicate 1084 to 98% for 2013, up from 84% in 2012, due to our non-renewal of the capital provision reinsurance treaty with Flagstone Re. Written premium growth was also driven by growth in our marine line, due to favorable pricing and the timing of underwriting opportunities in the market.

Chaucer's underwriting profit for the three months ended September 30, 2013 was \$20.8 million, compared to \$30.7 million for the three months ended September 30, 2012, a decrease of \$9.9 million. This was primarily due to higher non-catastrophe losses in our marine line and higher catastrophe losses, partially offset by higher favorable development on prior year's loss reserves. Catastrophe losses for the three months ended September 30, 2013 were \$11.8 million, compared to \$7.2 million for the three months ended September 30, 2012, an increase of \$4.6 million. Favorable development on prior years' loss reserves for the three months ended September 30, 2013 was \$27.8 million, compared to \$17.1 million for the three months ended September 30, 2012, an increase of \$10.7 million.

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We continue to experience high levels of capacity across the international insurance industry. Accordingly, we expect few rate increases in the fourth quarter of 2013. Opportunities for rate increases will likely be limited to those markets most affected by recent high levels of insured market losses. Current pricing conditions in the energy line are weakening, while aviation and casualty markets continue to be affected by low loss activity and over-capacity. U.K. motor rates decreased modestly in 2012 and this decline has continued in 2013, as expected, following significant increases in 2010 and 2011. There can be no assurance that we will be able to maintain adequate rates in light of economic and regulatory conditions in our markets.

Other

Other operating loss was \$1.4 million for the three months ended September 30, 2013, compared to a \$1.9 million loss for the three months ended September 30, 2012. The \$0.5 million change is primarily due to lower losses in our voluntary pools business.

Nine months ended September 30, 2013 Compared to Nine months ended September 30, 2012

Operating income before interest expense and income taxes was \$290.5 million in the nine months ended September 30, 2013, compared to \$179.6 million in the nine months ended September 30, 2012, an increase of \$110.9 million. Catastrophe related activity for the nine months ended September 30, 2013 was \$112.1 million compared to \$166.6 million in the same period of 2012, a decrease of \$54.5 million. Excluding the impact of catastrophe related activity, segment earnings increased by \$56.4 million. This increase was primarily due to higher favorable development on prior years' loss reserves and lower non-catastrophe related losses, partially offset by higher underwriting expenses. Favorable development on prior years' loss reserves was \$57.4 million for the nine months ended September 30, 2013, compared to \$8.3 million for the nine months ended September 30, 2012, an increase of \$49.1 million.

Net premiums written grew by \$166.7 million in the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, and net premiums earned grew by \$153.2 million. Chaucer accounted for \$124.1 million of the net premiums written increase and \$39.4 million of the net premiums earned increase, primarily due to the aforementioned increase in Chaucer's economic interests in Syndicate 1084. Additionally, growth in our core commercial businesses, resulting from rate increases, strong retention and targeted new business expansion, was partially offset by a decrease in our Personal Lines net premiums written.

Production and Underwriting Results

The following table summarizes premiums written on a gross and net basis, net premiums earned and loss, LAE, expense and combined ratios for the Commercial Lines, Personal Lines and Chaucer segments. Loss, LAE, catastrophe loss and combined ratios shown below include prior year reserve development. These items are not meaningful for our Other segment.

<i>(dollars in millions)</i>	Nine Months Ended September 30, 2013						
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Commercial Lines	\$ 1,754.1	\$ 1,535.6	\$ 1,455.1	2.1	62.8	37.7	100.5
Personal Lines	1,163.4	1,085.1	1,098.9	4.9	69.4	27.3	96.7
Chaucer	1,108.8	880.5	755.8	3.6	52.2	37.4	89.6
Total	<u>\$ 4,026.3</u>	<u>\$ 3,501.2</u>	<u>\$ 3,309.8</u>	3.4	62.6	34.2	96.8

<i>(dollars in millions)</i>	Nine Months Ended September 30, 2012						
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Commercial Lines	\$ 1,668.4	\$ 1,465.6	\$ 1,345.2	4.9	68.0	37.4	105.4
Personal Lines	1,217.8	1,112.2	1,094.1	7.6	73.4	27.1	100.5
Chaucer	1,110.3	756.4	716.4	2.4	53.6	37.4	91.0
Total	<u>\$ 3,996.5</u>	<u>\$ 3,334.2</u>	<u>\$ 3,155.7</u>	5.3	66.6	33.9	100.5

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The following table summarizes net premiums written, and loss and LAE and catastrophe loss ratios by line of business for the Commercial Lines and Personal Lines segments. Loss and LAE and catastrophe loss ratios include prior year reserve development.

<i>(dollars in millions)</i>	Nine Months Ended September 30,					
	2013			2012		
	Net Premiums	Loss & LAE	Catastrophe	Net Premiums	Loss & LAE	Catastrophe
	Written	Ratios	Loss Ratios	Written	Ratios	Loss Ratios
Commercial Lines:						
Commercial multiple peril	\$ 502.7	58.4	5.2	\$ 474.4	66.6	12.1
Commercial automobile	230.7	75.0	0.3	213.5	74.4	0.6
Workers' compensation	176.6	63.8	—	153.7	70.7	—
Other commercial	625.6	61.6	1.0	624.0	66.0	2.2
Total Commercial Lines	<u>\$1,535.6</u>	<u>62.8</u>	<u>2.1</u>	<u>\$1,465.6</u>	<u>68.0</u>	<u>4.9</u>
Personal Lines:						
Personal automobile	\$ 680.8	74.7	0.4	\$ 699.6	75.9	1.3
Homeowners	373.3	61.8	13.0	380.5	71.0	19.0
Other personal	31.0	46.0	5.7	32.1	48.8	5.3
Total Personal Lines	<u>\$1,085.1</u>	<u>69.4</u>	<u>4.9</u>	<u>\$1,112.2</u>	<u>73.4</u>	<u>7.6</u>

The following table summarizes premiums written on a gross and net basis and net premiums earned by line of business for the Chaucer segment.

<i>(in millions)</i>	Nine Months Ended September 30,					
	2013			2012		
	Gross Premiums	Net Premiums	Net Premiums	Gross Premiums	Net Premiums	Net Premiums
	Written	Written	Earned	Written	Written	Earned
Chaucer:						
Energy	\$ 185.2	\$ 132.8	\$ 120.9	\$ 241.2	\$ 147.3	\$ 135.7
Marine and aviation	276.9	220.0	184.8	260.3	177.0	169.4
U.K. motor	243.7	224.7	208.3	232.9	191.1	182.4
Property	234.0	168.7	134.6	221.4	137.1	134.8
Casualty and other	169.0	134.3	107.2	154.5	103.9	94.1
Total Chaucer	<u>\$ 1,108.8</u>	<u>\$ 880.5</u>	<u>\$ 755.8</u>	<u>\$ 1,110.3</u>	<u>\$ 756.4</u>	<u>\$ 716.4</u>

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

<i>(in millions)</i>	Nine Months Ended September 30,									
	2013					2012				
	Commercial	Personal	Chaucer	Other	Total	Commercial	Personal	Chaucer	Other	Total
	Lines	Lines	Chaucer	Other	Total	Lines	Lines	Chaucer	Other	Total
GAAP underwriting profit (loss), excluding prior year reserve development and catastrophes	\$ 24.2	\$ 92.5	\$ 33.6	\$ (1.4)	\$ 148.9	\$ 10.9	\$ 83.7	\$ 37.7	\$ (1.3)	\$ 131.0
Prior year favorable (unfavorable) loss and LAE reserve development	(3.0)	(10.5)	71.8	(0.9)	57.4	(19.4)	(15.2)	43.9	(1.0)	8.3
Pre-tax catastrophe effect	(31.0)	(54.2)	(26.9)	—	(112.1)	(66.5)	(83.1)	(17.0)	—	(166.6)
GAAP underwriting profit (loss)	(9.8)	27.8	78.5	(2.3)	94.2	(75.0)	(14.6)	64.6	(2.3)	(27.3)
Net investment income	107.4	56.7	31.4	5.4	200.9	106.3	64.5	29.8	5.7	206.3
Fees and other income	5.9	9.5	13.6	2.2	31.2	10.4	10.2	16.5	6.7	43.8
Other operating expenses	(5.8)	(5.9)	(13.3)	(10.8)	(35.8)	(9.1)	(5.6)	(13.6)	(14.9)	(43.2)
Operating income (loss) before income taxes	<u>\$ 97.7</u>	<u>\$ 88.1</u>	<u>\$110.2</u>	<u>\$ (5.5)</u>	<u>\$ 290.5</u>	<u>\$ 32.6</u>	<u>\$ 54.5</u>	<u>\$ 97.3</u>	<u>\$ (4.8)</u>	<u>\$ 179.6</u>

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Commercial Lines

Commercial Lines net premiums written was \$1,535.6 million in the nine months ended September 30, 2013, compared to \$1,465.6 million in the nine months ended September 30, 2012. This \$70.0 million increase was primarily driven by rate increases, strong retention, and targeted new business expansion in our core commercial businesses, partially offset by exposure management actions that focus on reducing volatility from weather-related events and driving profit improvement.

Commercial Lines underwriting loss in the nine months ended September 30, 2013 was \$9.8 million, compared to \$75.0 million in the nine months ended September 30, 2012. This improvement reflects decreased catastrophe and non-catastrophe losses and lower unfavorable development on prior years' loss reserves. Catastrophe losses for the nine months ended September 30, 2013 were \$31.0 million, compared to \$66.5 million for the nine months ended September 30, 2012, a decrease of \$35.5 million. Unfavorable development on prior years' loss reserves for the nine months ended September 30, 2013 was \$3.0 million compared to unfavorable development of \$19.4 million for the nine months ended September 30, 2012.

Commercial Lines current accident year underwriting profit, excluding catastrophes, was \$24.2 million in the nine months ended September 30, 2013, compared to \$10.9 million in the nine months ended September 30, 2012. This \$13.3 million improvement in non-catastrophe current accident year results was primarily due to lower losses in our commercial multiple peril and workers compensation lines, partially offset by higher losses in our commercial automobile line. The improvement in current accident year losses in our commercial multiple peril line was primarily due to fewer large losses, underwriting actions, and price increases, while the improvement in current accident year losses in our workers' compensation line primarily resulted from price increases. In our commercial automobile line, current accident year losses increased in our liability coverages.

Personal Lines

Personal Lines net premiums written was \$1,085.1 million in the nine months ended September 30, 2013, compared to \$1,112.2 million in the nine months ended September 30, 2012, a decrease of \$27.1 million. The primary factors contributing to this decrease were our continued property-focused exposure management actions and actions to improve underwriting results in all lines of business. These decreases were partially offset by higher rates in both our homeowners and personal automobile lines.

Net premiums written in the personal automobile line of business for the nine months ended September 30, 2013 were \$680.8 million compared to \$699.6 million for the nine months ended September 30, 2012, a decrease of \$18.8 million. This decrease was primarily due to a decline in policies in force of 9.4%, primarily from ongoing exposure management actions and actions to improve underwriting results, partially offset by rate increases. Net premiums written in the homeowners line of business for the nine months ended September 30, 2013 were \$373.3 million compared to \$380.5 million for the nine months ended September 30, 2012, a decrease of \$7.2 million. This is attributable to a decline in policies in force of 9.9%, as a result of the aforementioned exposure management actions, partially offset by rate increases.

Personal Lines underwriting profit for the nine months ended September 30, 2013 was \$27.8 million, compared to a loss of \$14.6 million for the nine months ended September 30, 2012, an improvement of \$42.4 million. This was primarily due to decreased catastrophe losses and improved non-catastrophe current accident year results. Catastrophe losses for the nine months ended September 30, 2013 were \$54.2 million, compared to \$83.1 million for the nine months ended September 30, 2012, a decrease of \$28.9 million. Unfavorable development on prior years' loss reserves for the nine months ended September 30, 2013 was \$10.5 million compared to unfavorable development of \$15.2 million for the nine months ended September 30, 2012.

Personal Lines current accident year underwriting profit, excluding catastrophes, was \$92.5 million in the nine months ended September 30, 2013, compared to \$83.7 million for the nine months ended September 30, 2012. This \$8.8 million increase in non-catastrophe current accident year results was primarily due to lower losses in our homeowners line, which we attribute to rate increases and profit improvement actions.

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Chaucer

Chaucer's net premiums written was \$880.5 million in the nine months ended September 30, 2013, compared to \$756.4 million in the nine months ended September 30, 2012, an increase of \$124.1 million, or 16.4%. This growth was primarily due to an increase in Chaucer's economic interests in Syndicate 1084 to 98% for 2013, up from 84% in 2012, due to our non-renewal of the capital provision reinsurance treaty with Flagstone Re. Written premium growth was also driven by growth in our marine, property, and casualty lines, due to favorable pricing and specific underwriting opportunities in these markets. Additionally, changes to our 2013 ceded reinsurance program, including increased net retentions for certain major lines, contributed to the growth in net premiums written. See "Reinsurance" in Item I – Business of our December 31, 2012 Form 10-K for additional information. Partially offsetting this growth was a reduction in net premiums written in our energy line, primarily due to a reduction of estimated premiums for the exploration and production coverage class, specifically control of well business, and the construction coverage class. This change was based on a reduced volume in actual well footage drilled, following tighter safety regulations worldwide and a reduction of offshore gas exploration in the U.S., and a reduced number and size of new construction projects worldwide. Additionally, net premiums written decreased in our aviation line.

Chaucer's underwriting profit for the nine months ended September 30, 2013 was \$78.5 million, compared to \$64.6 million for the nine months ended September 30, 2012, an improvement of \$13.9 million. These improved results were primarily due to increased favorable development on prior years' loss reserves, partially offset by higher catastrophe and non-catastrophe losses. Favorable development on prior years' loss reserves for the nine months ended September 30, 2013 was \$71.8 million, compared to \$43.9 million for the nine months ended September 30, 2012, a change of \$27.9 million. Catastrophe losses for the nine months ended September 30, 2013 were \$26.9 million, compared to \$17.0 million for the nine months ended September 30, 2012, an increase of \$9.9 million.

Other

Other operating loss was \$5.5 million for the nine months ended September 30, 2013, compared to a \$4.8 million loss for the nine months ended September 30, 2012. The \$0.7 million change is primarily due to higher employee retirement costs.

Reserve for Losses and Loss Adjustment Expenses

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

<i>(in millions)</i>	Nine Months Ended	
	September 30,	
	2013	2012
Gross loss and LAE reserves, beginning of period	\$6,197.0	\$5,760.3
Reinsurance recoverable on unpaid losses	2,074.3	1,931.8
Net loss and LAE reserves, beginning of period	4,122.7	3,828.5
Net incurred losses and LAE in respect of losses occurring in:		
Current year	2,128.8	2,110.2
Prior years	(57.4)	(8.3)
Total incurred losses and LAE	2,071.4	2,101.9
Net payments of losses and LAE in respect of losses occurring in:		
Current year	824.6	864.2
Prior years	1,219.3	1,163.6
Total payments	2,043.9	2,027.8
Effect of foreign exchange rate changes	(10.9)	22.9
Net reserve for losses and LAE, end of period	4,139.2	3,925.5
Reinsurance recoverable on unpaid losses	2,023.6	2,013.4
Gross reserve for losses and LAE, end of period	\$6,162.8	\$5,938.9

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

<i>(in millions)</i>	September 30,	December 31,
	2013	2012
Workers' compensation	\$ 586.7	\$ 571.8
Commercial automobile	293.7	269.7
Commercial multiple peril	607.1	629.7
AIX	330.3	321.6
Other commercial	426.8	454.2
Total Commercial	<u>2,244.6</u>	<u>2,247.0</u>
Personal automobile	1,399.2	1,400.7
Homeowners and other	143.7	141.3
Total Personal	<u>1,542.9</u>	<u>1,542.0</u>
Total Chaucer	<u>2,375.3</u>	<u>2,408.0</u>
Total loss and LAE reserves	<u>\$ 6,162.8</u>	<u>\$ 6,197.0</u>

Other commercial lines are primarily comprised of our professional liability, general liability, umbrella, and marine lines. Included in the Chaucer segment in the above table are \$241.0 million and \$272.4 million of reserves as of September 30, 2013 and December 31, 2012, respectively, related to Chaucer's Syndicate 4000, which consists of financial and professional liability lines written in 2008 and prior. Also included in the above table, primarily in other commercial lines, are \$60.9 million and \$60.5 million of asbestos and environmental reserves as of September 30, 2013 and December 31, 2012, respectively.

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Prior Year Development

Loss and LAE reserves for claims occurring in prior years developed favorably by \$57.4 million for the nine months ended September 30, 2013 compared to favorable development of \$8.3 million for the nine months ended September 30, 2012.

The primary drivers for reserve development during the nine months ended September 30, 2013 were as follows:

- Lower than expected losses within Chaucer's business as follows:
 - property line, primarily in the 2011 and 2012 accident years,
 - energy line, primarily in the 2010 through 2012 accident years, and
 - within casualty and other lines, specialist liability lines, primarily in the 2008 and 2009 accident years.
 - favorable impact of foreign exchange rate movements on prior years' loss reserves.
- Lower than expected losses within our workers' compensation line, primarily related to accident years 2006 through 2010 and lower involuntary pool losses including a \$3.2 million benefit from the settlement of a legal proceeding.
- Lower than expected losses within our commercial multi-peril line, primarily related to accident year 2012.

Partially offsetting the favorable development discussed above were the following:

- Higher than expected losses within our personal automobile line, due to severity in bodily injury coverage for accident years 2010 through 2012.
- Higher than expected large losses within our commercial automobile line, primarily related to liability coverage in accident years 2009 through 2011.
- Higher than expected losses within our other commercial lines, primarily related to accident years 2010 through 2012.

The primary drivers for reserve development during the nine months ended September 30, 2012 were as follows:

- Favorable development of previously established reserves in Chaucer's lines of business as follows:
 - energy line, primarily in the 2009 and 2010 accident years,
 - marine and aviation lines, primarily in the 2007 and 2008 accident years, and
 - within casualty and other lines, specialist liability lines, primarily in the 2010 and 2011 accident years.
- Within other commercial lines, primarily higher than expected losses in our surety line, and to a lesser extent, our AIX program business.
- Higher than expected losses within our commercial automobile line, primarily related to liability coverage in the 2011 accident year.
- Partially offsetting the unfavorable development within Commercial Lines was lower than expected losses within our commercial multiple peril line related to the 2008 through 2011 accident years.
- Within Personal Lines, higher than expected losses within our personal automobile line, primarily related to bodily injury severity in the 2010 and 2011 accident years, and higher than expected homeowners property losses from non-catastrophe weather related activity in the 2011 accident year.

It is not possible to know whether the factors that affected loss reserves in the first nine months of 2013 will also occur in future periods. As discussed in detail in our Annual Report on Form 10-K for the year ended December 31, 2012, there are inherent uncertainties in estimating reserves for losses and loss adjustment expenses. We encourage you to read our Form 10-K for more information about our reserving process and the judgments, uncertainties and risks associated therewith.

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Investments

Investment Results

Net investment income before taxes decreased \$3.5 million, or 5.1%, to \$65.7 million for the three months ended September 30, 2013, and \$5.6 million, or 2.7%, to \$200.9 million for the nine months ended September 30, 2013. The decline in both periods was primarily due to the impact of lower new money yields. For the year, this decrease was partially offset by additional income resulting from our investments in higher yielding investment grade mortgage-backed securities, higher dividend income and the investment of cash balances into fixed maturities beginning in the second quarter of 2012. Average pre-tax earned yields on fixed maturities were 3.99% and 4.23% for the three months ended September 30, 2013 and 2012, respectively, and 3.99% and 4.31% for the nine months ended September 30, 2013 and 2012, respectively. We expect average investment yields to continue to decline as new money rates remain lower than embedded book yields.

Investment Portfolio

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

<i>(dollars in millions)</i>	<u>September 30, 2013</u>		<u>December 31, 2012</u>	
		<u>% of Total</u>		<u>% of Total</u>
	<u>Carrying Value</u>	<u>Carrying Value</u>	<u>Carrying Value</u>	<u>Carrying Value</u>
Fixed maturities, at fair value	<u>\$6,675.5</u>	<u>83.9%</u>	6,952.2	86.5%
Equity securities, at fair value	<u>494.1</u>	<u>6.2</u>	315.8	3.9
Cash and cash equivalents	<u>602.2</u>	<u>7.6</u>	564.8	7.0
Other investments	<u>185.3</u>	<u>2.3</u>	210.3	2.6
Total cash and investments	<u>\$7,957.1</u>	<u>100.0%</u>	<u>\$8,043.1</u>	<u>100.0%</u>

Cash and Investments

Total cash and investments decreased \$86.0 million, or 1.1%, for the nine months ended September 30, 2013, of which fixed maturities decreased \$276.7 million, equities increased \$178.3 million and cash and cash equivalents increased \$37.4 million. The decrease in fixed maturities was primarily due to market value depreciation of \$220.5 million for the year. Equity securities grew primarily from additional purchases of dividend yielding stocks and exchange traded funds, as well as market value appreciation. Additionally, the increase in cash and cash equivalents was due to positive operational cash flows, partially offset by the use of cash to fund net investments, and financing activities. Cash used in financing activities in 2013 included the repayment of debt, common stock repurchases, external dividend payments and a decrease in cash collateral related to our securities lending program, partially offset by cash provided by net proceeds from the issuance of subordinated debentures.

Our fixed maturity portfolio is comprised of corporate securities, taxable and tax-exempt municipal securities, residential mortgage-backed securities, U.S. government securities, commercial mortgage-backed securities, foreign government securities and asset-backed securities. Equity securities primarily consist of common stocks, exchange traded funds, and non-redeemable preferred stocks.

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

<i>(in millions)</i> Investment Type	September 30, 2013			Change in Net
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)	Unrealized During 2013
U.S. Treasury and government agencies	\$ 376.3	\$ 370.5	\$ (5.8)	\$ (14.2)
Foreign government	286.6	288.4	1.8	(2.6)
Municipals:				
Taxable	915.9	949.5	33.6	(45.5)
Tax exempt	146.1	147.4	1.3	(5.7)
Corporate	3,532.7	3,681.9	149.2	(111.4)
Asset-backed:				
Residential mortgage-backed	694.0	707.1	13.1	(23.1)
Commercial mortgage-backed	349.1	355.9	6.8	(16.1)
Asset-backed	172.6	174.8	2.2	(1.9)
Total fixed maturities	\$6,473.3	\$6,675.5	\$ 202.2	\$ (220.5)

Net unrealized gains on fixed maturities decreased \$220.5 million to \$202.2 million at September 30, 2013, compared to \$422.7 million at December 31, 2012.

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

<i>(dollars in millions)</i> NAIC Designation	Rating Agency Equivalent Designation	September 30, 2013			December 31, 2012		
		Amortized	% of Total Fair Value	Amortized	% of Total Fair Value		
		Cost	Fair Value	Cost	Fair Value		
1	Aaa/Aa/A	\$4,714.8	\$4,834.0	72.4%	\$4,744.0	\$5,017.9	72.2%
2	Baa	1,385.3	1,454.8	21.8	1,443.5	1,569.3	22.6
3	Ba	148.8	155.1	2.3	143.1	156.2	2.2
4	B	172.9	177.8	2.7	135.1	143.5	2.1
5	Caa and lower	38.2	39.2	0.6	50.1	50.7	0.7
6	In or near default	13.3	14.6	0.2	13.7	14.6	0.2
Total fixed maturities		\$6,743.3	\$6,675.5	100.0%	\$6,529.5	\$6,952.2	100.0%

Based on ratings by the National Association of Insurance Commissioners (“NAIC”), approximately 94% of the fixed maturity portfolio consisted of investment grade securities at September 30, 2013, compared to 95% at December 31, 2012. The quality of our fixed maturity portfolio remains strong based on ratings, capital structure position, support through guarantees, underlying security, issuer diversification and yield curve position.

Our fixed maturity and equity securities are classified as available-for-sale and are carried at fair value. Financial instruments whose value was determined using significant management judgment or estimation constituted less than 2% of the total assets we measured at fair value. (See also Note 6 – “Fair Value” in the Notes to Interim Consolidated Financial Statements).

Other investments consisted primarily of overseas deposits, which are U.S. dollar and foreign denominated investments maintained in overseas funds and managed exclusively by Lloyd’s. These funds are required in order to protect policyholders in overseas markets and enable our Chaucer segment to operate in those markets. Access to those funds is restricted and we have no control over the investment strategy. Also included in other investments were investments in limited partnerships, which were accounted for under the equity method of accounting or at cost.

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.

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European sovereign and non-sovereign debt exposure

Our European fixed maturity credit exposure at September 30, 2013 was as follows:

<i>(in millions)</i>	Sovereign		Foreign Agency		Non-Sovereign				Total	
	Amortized		Amortized		Financial		Non-Financial		Amortized	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Country:										
United Kingdom	\$ 39.2	\$39.2	\$ 20.6	\$ 20.5	\$ 271.7	\$275.7	\$ 214.8	\$223.5	\$ 546.3	\$ 558.9
Germany	—	—	61.5	61.8	—	—	76.8	79.6	138.3	141.4
Switzerland	—	—	—	—	21.4	21.8	71.4	75.2	92.8	97.0
The Netherlands	—	—	19.3	19.7	40.2	40.9	35.1	36.1	94.6	96.7
France	—	—	4.8	4.9	13.2	13.0	61.4	63.7	79.4	81.6
Supranationals	—	—	74.4	75.5	—	—	—	—	74.4	75.5
Sweden	—	—	—	—	24.1	24.8	12.9	13.2	37.0	38.0
Spain	—	—	—	—	10.1	10.3	17.0	18.2	27.1	28.5
Norway	—	—	7.2	7.2	2.6	2.7	7.3	7.4	17.1	17.3
Italy	—	—	—	—	0.3	0.3	15.9	16.2	16.2	16.5
Belgium	—	—	—	—	—	—	15.8	16.2	15.8	16.2
Ireland	—	—	—	—	—	—	14.9	15.8	14.9	15.8
Luxembourg	—	—	—	—	—	—	8.3	8.5	8.3	8.5
Portugal	—	—	—	—	—	—	4.2	4.4	4.2	4.4
Jersey	—	—	—	—	—	—	2.3	2.4	2.3	2.4
Denmark	—	—	—	—	—	—	2.1	2.1	2.1	2.1
Total fixed maturities	\$ 39.2	\$39.2	\$ 187.8	\$189.6	\$ 383.6	\$389.5	\$ 560.2	\$582.5	\$1,170.8	\$1,200.8

Our sovereign debt totaled \$39.2 million, or 0.5% of investment assets, and was limited to the highly rated country of the U.K. In addition, our supranational and foreign agency exposure totaled \$189.6 million, or 2.4% of investment assets, and primarily consisted of debt securities from the highly rated countries of Germany, U.K., and the Netherlands. Our exposure to European non-sovereign financials, excluding those based in the U.K., totaled \$113.8 million, or 1.4% of investment assets. Exposure to non-sovereign U.K. financial debt consisted primarily of term deposits and senior notes of banks. Also, we held money market funds totaling \$183.9 million, or 2.3% of investment assets, which were comprised of a well-diversified portfolio of short-term debt securities of predominately large financial institutions domiciled in highly rated countries. The remainder of our European non-sovereign debt exposure, excluding the U.K., was \$359.0 million, which represented 4.5% of investment assets. Generally, these securities were high quality, large cap multi-national companies that were well diversified by sector, country and issuer. Included in our non-financial, non-sovereign exposure were issuers domiciled in Spain, Italy, Ireland and Portugal totaling \$54.6 million, or 0.7% of investment assets. These consisted of large market capitalization issuers that provide essential products and/or services.

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The previous table represents all European countries in which we had exposure. We determined country exposures based on the country of domicile for the ultimate parent company of the various issuers we held as of September 30, 2013; however, in light of the economic and financial inter-relatedness and dependencies that exist among European countries and related financial systems, economic turmoil in one country could trigger a contagion effect on other countries. We believe the quality of our European credit exposure remains sound based on ratings and issuer strength, position in the capital structure, support through guarantees and partial government ownership by highly rated countries, diversity and quality of non-financial issuers and blend of industry exposures, and yield curve position. We believe that we do not have meaningful indirect exposures in our portfolio and we do not invest in credit derivatives.

We manage our country exposure using fundamental analysis coupled with relative value considerations. Investment decisions are based on the combination of a top-down macroeconomic perspective and bottom-up credit security analysis. We monitor political and economic developments; progress toward attainment of growth and budget targets; developments related to policy, reform and regulatory initiatives from European officials; progress toward funding objectives, including the availability and cost of funding; outlook for credit ratings; ability of banks to meet increased regulatory capital standards, operate in a weakened macroeconomic environment, and maintain adequate liquidity and sufficient access to capital to meet funding requirements; and contagion throughout the financial system as evidenced by increased costs for interbank funding, lower prices for stocks and corporate bonds, as well as the availability of capital.

We actively manage our credit exposure and seek securities with the best combination of credit strength and valuation. As we invest new capital, we consider expectations for the strength and duration of economic recovery, risks associated with the European debt crisis and the possibility of additional volatility based on these challenges. Accordingly, we focus on providers of essential services or products best positioned to navigate the period of weak growth; industrials with greater international exposure, either locally or via exports, particularly to the developing world, which we view favorably based on higher growth assumptions for emerging market economies; and financial institutions best positioned regarding asset quality, liquidity and capital adequacy.

Overall economic growth remains weak throughout Europe, but modestly improved versus previous quarters. Volatility, while currently suppressed, could increase suddenly as officials in Europe attempt to engineer a lasting solution to the debt crisis or find a way to address the twin objectives of stimulating economic growth while balancing fiscal budgets. We believe that leaders remain committed to protecting the currency union and improving financial stability. Although the timing and degree of success toward achieving sustained improvement regarding the European crisis remains uncertain, we do not anticipate that future developments related to our European sovereign and non-sovereign debt exposure will have a material effect on our financial condition, results of operations or liquidity.

Other-than-Temporary Impairments

For the three months ended September 30, 2013, we recognized in earnings \$2.1 million of other-than-temporary impairments (“OTTI”), primarily related to common stock. For the three months ended September 30, 2012, we recognized \$2.2 million of OTTI on debt securities and equity securities in earnings. OTTI on debt securities was \$2.1 million, consisting primarily of below investment grade corporate bonds we intended to sell.

For the first nine months ended September 30, 2013, we recognized in earnings \$3.7 million of OTTI, of which \$2.5 related to equity securities and \$1.2 related to debt securities. OTTI on debt securities consisted of \$0.5 million of corporate securities in the industrial sector that we intend to sell and \$0.7 million related to estimated credit losses, primarily on residential mortgage-backed securities. For the first nine months of 2012, we recognized in earnings \$5.7 million of OTTI, of which \$5.4 million related to debt securities and \$0.3 million related to equity securities. OTTI on debt securities consisted of \$4.4 million of below investment grade corporate bonds in the utilities and industrial sectors that we intended to sell and \$1.0 million related to estimated credit losses.

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Unrealized Losses

The following table provides information about our fixed maturities and equity securities that were in an unrealized loss position. (See also Note 5 – “Investments” in the Notes to Interim Consolidated Financial Statements.)

<i>(in millions)</i>	September 30, 2013		December 31, 2012	
	Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value
Fixed maturities:				
Investment grade:				
12 months or less	\$ 54.8	\$1,568.4	\$ 3.4	\$546.0
Greater than 12 months	9.6	87.4	9.5	106.5
Total investment grade fixed maturities	64.4	1,655.8	12.9	652.5
Below investment grade:				
12 months or less	4.5	94.9	1.2	28.2
Greater than 12 months	3.5	29.4	5.9	55.1
Total below investment grade fixed maturities	8.0	124.3	7.1	83.3
Equity securities:				
12 months or less	3.6	128.7	4.8	74.4
Greater than 12 months	1.8	3.9	—	—
Total equity securities	5.4	132.6	4.8	74.4
Total	\$ 77.8	\$1,912.7	\$ 24.8	\$810.2

Gross unrealized losses at September 30, 2013 increased \$53.0 million compared to December 31, 2012, primarily attributable to higher prevailing interest rates. At September 30, 2013, gross unrealized losses consisted primarily of \$34.4 million of corporate fixed maturities, \$12.5 million in municipal securities, \$10.4 million of U.S. Treasury and government agency securities, \$9.6 million of residential mortgage-backed securities, \$5.4 million of equity securities and \$4.4 million of commercial mortgage backed securities.

We view gross unrealized losses on fixed maturities and equity securities as 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, such 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. Inherent in our assessment are the risks that, subsequent to the balance sheet date, market factors may differ from our expectations; the global economic recovery is less robust than we expect or reverts to recessionary trends; 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 September 30, 2013 and December 31, 2012. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties, or we may have the right to put or sell the obligations back to the issuers.

<i>(in millions)</i>	September 30,	December 31,
	2013	2012
Due in one year or less	\$ 0.6	\$ 0.5
Due after one year through five years	6.2	4.7
Due after five years through ten years	30.3	2.5
Due after ten years	21.0	8.8
	58.1	16.5
Mortgage-backed and asset-backed securities	14.3	3.5
Total fixed maturities	72.4	20.0
Equity securities	5.4	4.8
Total fixed maturities and equity securities	\$ 77.8	\$ 24.8

The carrying values of defaulted fixed maturity securities on non-accrual status at September 30, 2013 and December 31, 2012 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 \$1.8 million and \$1.9 million for the nine months ended September 30, 2013 and 2012, 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 have not fully stabilized, 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.

Monetary policies in the developed economies, particularly in the United States, Europe and Japan, are supportive of moderate economic growth, while fiscal policies are more divergent and subject to change. The removal, modification or suggestion of changes in these policies could have an adverse effect on prevailing market interest rates and 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 and we could incur additional realized and unrealized losses in future periods.

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Other Items

Net income also included the following items:

<i>(in millions)</i>	Three Months Ended September 30,					
	Commercial	Personal		Discontinued		Total
	Lines	Lines	Chaucer	Other	Operations	
2013						
Net realized investment gains	\$ 0.2	\$ 0.7	\$ 0.1	\$—	\$ —	\$ 1.0
Loss on real estate	(0.9)	(3.8)	—	—	—	(4.7)
Net costs related to acquired businesses	—	—	—	(0.2)	—	(0.2)
Net foreign exchange losses	—	—	—	(0.6)	—	(0.6)

2012

Net realized investment gains	\$ —	\$ 1.5	\$ 1.2	\$ 2.3	\$ —	\$ 5.0
Net benefit related to acquired businesses	—	—	—	0.2	—	0.2
Net foreign exchange losses	—	—	—	(0.3)	—	(0.3)
Discontinued operations, net of taxes	—	—	—	—	(0.5)	(0.5)

<i>(in millions)</i>	Nine Months Ended September 30,					
	Commercial	Personal		Discontinued		Total
	Lines	Lines	Chaucer	Other	Operations	
2013						
Net realized investment gains (losses)	\$ 14.8	\$ 8.3	\$ 0.7	\$ (1.0)	\$ —	\$ 22.8
Loss on real estate	(0.9)	(3.8)	—	—	—	(4.7)
Net loss from repayment of debt	(5.2)	(2.6)	—	(11.3)	—	(19.1)
Net foreign exchange gains	—	—	—	0.1	—	0.1
Discontinued operations, net of taxes	—	—	—	—	0.1	0.1

2012

Net realized investment gains (losses)	\$ (0.2)	\$ 1.6	\$ 0.9	\$ 2.4	\$ —	\$ 4.7
Net costs related to acquired businesses	—	—	—	(2.2)	—	(2.2)
Net foreign exchange losses	—	—	—	(0.3)	—	(0.3)
Discontinued operations, net of taxes	—	—	—	—	9.5	9.5

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

Net realized gains on investments were \$1.0 million for the three months ended September 30, 2013 compared to net realized gains on investments of \$5.0 million for the three months ended September 30, 2012. Net realized gains in 2013 were primarily due to \$3.9 million of gains recognized from the sale of fixed maturities and equities, partially offset by \$2.1 million of other-than-temporary impairments from equity securities and to a lesser extent, fixed maturities. Net realized gains in 2012 are primarily due to \$5.9 million of gains recognized from the sale of fixed maturities and equity securities, partially offset by \$2.2 million of other-than-temporary impairments from fixed maturities and to a lesser extent, equity securities.

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Net realized gains on investments were \$22.8 million for the nine months ended September 30, 2013 compared to net realized gains on investments of \$4.7 million for the nine months ended September 30, 2012. Net realized gains in 2013 were primarily due to \$27.7 million of gains recognized from the sale of equities and fixed maturities, partially offset by \$3.7 million of other-than-temporary impairments from equity securities and to a lesser extent, fixed maturities. Net realized gains in 2012 are primarily due to \$13.9 million of gains recognized from the sale of fixed maturities and to a lesser extent, equity securities, and \$0.7 million of gains in foreign currency hedges. These were partially offset by \$5.7 million of other-than-temporary impairments from fixed maturities and to a lesser extent, equity securities and a \$5.1 million loss on futures contracts relating to the release of tax capital loss carryforwards.

During the second quarter of 2013, we repurchased senior debentures with a net carrying value of \$39.2 million, maturing October 15, 2025, at a cost of \$50.5 million, resulting in a loss of \$11.3 million. Additionally, in January 2013, we repaid \$46.3 million of our FHLBB advances plus prepayment fees of \$7.8 million for a total payment of \$54.1 million.

In September 2013, we decided to consolidate our operations in Howell, Michigan from two buildings into one building. This resulted in a plan to relocate the employees and pursue the sale of one of the buildings. In conjunction with the planned relocation, we recognized a loss of \$4.7 million. This is included in other operating expenses in the Consolidated Statements of Income during the three and nine months ended September 30, 2013.

On April 30, 2012, we completed the sale of our third party administration subsidiary, Citizens Management, Inc. This sale resulted in a gain of \$10.9 million after taxes and is included in discontinued operations for the nine months ended September 30, 2012.

Income Taxes

We are subject to the tax laws and regulations of the U.S. and foreign countries in which we operate. We file a consolidated U.S. federal income tax return that includes the holding company and its U.S. subsidiaries. Generally, taxes are accrued at the U.S. statutory tax rate of 35% for income from the U.S. operations. Our primary non-U.S. jurisdiction is the U.K. In July 2012, the U.K. statutory rate decreased from 26% to 24% effective April 1, 2012 and from 24% to 23% effective April 1, 2013. Further decreases were enacted in July 2013 to reduce the statutory rate from 23% to 21% effective April 1, 2014 and from 21% to 20% effective April 1, 2015. We accrue taxes on certain non-U.S. income that is subject to U.S. tax at the U.S. tax rate. Foreign tax credits, where available, are utilized to offset U.S. tax as permitted. Certain of our non-U.S. income is not subject to U.S. tax until repatriated. Foreign taxes on this non-U.S. income are accrued at the local foreign rate and do not have an accrual for U.S. deferred taxes since these earnings are intended to be indefinitely reinvested overseas.

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

The provision for income taxes from continuing operations was an expense of \$24.8 million in the three months ended September 30, 2013, compared to an expense of \$12.3 million during the same period in 2012. These provisions resulted in consolidated effective federal tax rates of 28.8% and 23.1% for the three months ended September 30, 2013 and 2012, respectively. These provisions reflect benefits related to tax planning strategies implemented in prior years of \$3.5 million and \$4.2 million during the three months ended September 30, 2013 and 2012, respectively. In addition, the provision for the three months ended September 30, 2013 reflects an expense of \$0.8 million primarily due to a change in estimate of prior years' non-U.S. income offset by a benefit of \$0.7 million due to a decrease in the U.K. tax rate. The provision for the three months ended September 30, 2012 also reflects a decrease in our valuation allowance related to capital loss carryforwards of \$1.3 million. Absent these adjustments, the provision for income taxes would have been \$28.2 million or 32.8% and \$17.8 million or 33.5% for the three months ended September 30, 2013 and 2012, respectively. The decrease in the effective tax rate is primarily due to higher non-U.S. income taxed at the lower U.K. rate.

The income tax provision on operating income was an expense of \$29.7 million during the three months ended September 30, 2013, compared to \$15.8 million during the same period in 2012. These provisions resulted in effective tax rates for operating income of 32.8% and 32.7% in 2013 and 2012, respectively.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

The provision for income taxes from continuing operations was an expense of \$60.1 million in the nine months ended September 30, 2013, compared to an expense of \$33.7 million during the same period in 2012. These provisions resulted in consolidated effective federal tax rates of 24.9% for both the nine months ended September 30, 2013 and 2012. These provisions reflect benefits related to tax planning strategies implemented in prior years of \$13.8 million and \$10.8 million during the nine months ended September 30, 2013 and 2012, respectively. In addition, the provision for the nine months ending September 30, 2013 reflects a benefit of \$2.8 million for a change in estimate of prior years' non-U.S. income and a benefit of \$0.7 million resulting from a decrease in the U.K. tax rate. The provision for the nine months ended September 30, 2012 reflects a decrease in our valuation allowance related to capital loss carryforwards of \$1.3 million. Absent these benefits, the provision for income taxes would have been \$77.4 million or 32.1% and \$45.8 million or 33.9% for the nine months ended September 30, 2013 and 2012, respectively. The decrease in the effective tax rate is primarily due to higher non-U.S. income taxed at the lower U.K. rate.

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The income tax provision on operating income was an expense of \$74.2 million during the nine months ended September 30, 2013, compared to \$44.4 million during the same period in 2012. These provisions resulted in effective tax rates for operating income of 30.7% and 33.4% in 2013 and 2012, respectively. The decrease in the effective tax rate is primarily due to the aforementioned benefits for the change in estimate of prior years' non-U.S. income and the decrease in the U.K. tax rate.

In June 2012, we completed a transaction which resulted in the realization, for tax purposes only, of unrealized gains in our investment portfolio of \$69.6 million. This transaction enabled us to realize capital loss carryforwards to offset this gain, and resulted in the release of \$24.4 million of the valuation allowance we held against the deferred tax asset related to these capital loss carryforwards. The release of \$24.4 million was recorded as a benefit in accumulated other comprehensive income that will be released into income from continuing operations, in future years, as the investment securities subject to these transactions are sold or mature.

Critical Accounting Estimates

Interim consolidated financial statements have been prepared in conformity with U.S. GAAP and include certain accounting policies that we consider to be critical due to the amount of judgment and uncertainty inherent in the application of those policies. While we believe that the amounts included in our consolidated financial statements reflect our best judgment, the use of different assumptions could produce materially different accounting estimates. As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012, 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”)
- Deferred tax assets

For a more detailed discussion of these critical accounting estimates, see our Annual Report on Form 10-K for the year ended December 31, 2012.

Statutory Surplus of U.S. Insurance Subsidiaries

The following table reflects statutory surplus for our U.S. insurance subsidiaries:

<i>(in millions)</i>	September 30,	December 31,
	2013	2012
Total Statutory Capital and Surplus - U.S. Insurance Subsidiaries	\$ 1,751.3	\$ 1,523.4

The statutory capital and surplus for our U.S. insurance subsidiaries increased \$227.9 million during the first nine months of 2013, primarily due to operating results, an increase in admitted tax assets, and realized and unrealized gains on investments.

The NAIC prescribes an annual calculation regarding risk based capital (“RBC”). RBC ratios for regulatory purposes are expressed as a percentage of the capital required to be above the Authorized Control Level (the “Regulatory Scale”); however, in the insurance industry, RBC ratios are widely expressed as a percentage of the Company Action Level. The following table reflects the Company Action Level, the Authorized Control Level and RBC ratios for Hanover Insurance (which includes Citizens and other U.S. insurance subsidiaries), as of September 30, 2013, expressed both on the Industry Scale (Total Adjusted Capital divided by the Company Action Level) and Regulatory Scale (Total Adjusted Capital divided by Authorized Control Level):

<i>(dollars in millions)</i>	Company	Authorized	RBC Ratio	RBC Ratio
	Action Level	Control Level	Industry Scale	Regulatory Scale
The Hanover Insurance Company	\$ 674.0	\$ 337.0	258%	517%

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Lloyd's Capital Requirement

Chaucer corporate members operate in the Lloyd's market, which requires that these members deposit funds, referred to as "Funds at Lloyd's", to support their underwriting interests. Lloyd's sets required capital annually for all participating syndicates based on each syndicate's business plans, the rating and reserving environment, and discussions with regulatory and rating agencies. Although the minimum capital levels are set by Lloyd's, it is the responsibility of Chaucer to continually monitor the risk profiles of its managed syndicates to ensure that the level of funding remains appropriate. Such capital is comprised of cash and cash equivalents, investments, undrawn letters of credit provided by various banks and other assets. At September 30, 2013, we are in compliance with the capital requirements. We have the following securities, assets and letters of credit pledged to Lloyd's to satisfy these capital requirements at September 30, 2013. In 2012, we decided not to renew the capital provision reinsurance treaty for the 2013 underwriting year with Flagstone Re. In accordance with the terms of the capital provision reinsurance treaty, Flagstone Re is obligated to provide Funds at Lloyd's in relation to its participation during the 2009 through 2012 underwriting years, until such time that these years close. We expect to be able to meet these capital requirements in the future.

<i>(in millions)</i>	
Letters of credit	\$180.0
Reinsurance treaty	94.9
Fixed maturities, at fair value	341.0
Cash and cash equivalents	27.8
Total securities, assets and letters of credit pledged to Lloyd's	<u>\$643.7</u>

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 U.S. insurance subsidiaries are subject to limitations imposed by regulators, such as prior notice periods and the requirement that dividends in excess of a specified percentage of statutory surplus or prior year's statutory earnings receive prior approval (so called "extraordinary dividends").

Dividend payments to the holding company by our Chaucer business are regulated by U.K. law. Dividends from Chaucer are dependent on dividends from its subsidiaries. Annual dividend payments from Chaucer are limited to retained earnings that are not restricted by capital and other requirements for business at Lloyd's. Also, Chaucer must provide advance notice to the U.K.'s Prudential Regulation Authority ("PRA"), one of the successors to the Financial Services Authority, of certain proposed dividends or other payments from PRA regulated entities. In connection with an intercompany borrowing arrangement with the holding company, interest on a \$300 million note is paid by Chaucer on a quarterly basis to the holding company. This interest may be deferred at the election of the holding company. If deferred, the interest is added to the principal. During 2013, Chaucer paid \$11.2 million of interest to the holding company.

At September 30, 2013, THG, as a holding company, held approximately \$144.5 million of fixed maturities and cash. We believe our holding company assets are sufficient to meet our future obligations, which consist primarily of dividends to our shareholders (as and to the extent declared), the interest on our senior and subordinated debentures, additional funds relating to the purchase of Chaucer, 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 2013 holding company obligations; however, we may decide to do so.

Sources of cash for our insurance subsidiaries primarily consist of premiums collected, investment income and maturing investments. Primary cash outflows are paid claims, losses and loss adjustment expenses, policy and contract acquisition expenses, other underwriting expenses and investment purchases. Cash outflows related to losses and loss adjustment expenses can be variable because of uncertainties surrounding settlement dates for liabilities for unpaid losses and because of the potential for large losses either individually or in the aggregate. We periodically adjust our investment policy to respond to changes in short-term and long-term cash requirements.

Net cash provided by operating activities was \$181.9 million during the first nine months of 2013, as compared to \$204.6 million during the first nine months of 2012. The \$22.7 million decrease primarily resulted from an increase in loss and LAE payments and payment related to the settlement of our life insurance postretirement benefit obligation. These decreases were partially offset by an increase in net premiums written.

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Net cash used in investing activities was \$94.6 million during the first nine months of 2013, as compared to \$528.5 million during the first nine months of 2012. During 2013, cash used was primarily related to net purchases of equity securities, partially offset by net disposals of fixed maturities. In 2012, cash used was primarily related to net purchases of fixed maturities as we invested cash from Chaucer and net investments in equity securities. Cash used to purchase investments was partially offset by cash received from the sale of CMI.

Net cash used in financing activities was \$49.5 million during the first nine months of 2013, as compared to \$58.6 million during the first nine months of 2012. During 2013, cash used in financing activities primarily resulted from the repayment of debt, repurchases of common stock and the payment of dividends to shareholders, partially offset by the proceeds from the issuance, on March 20, 2013, of \$175.0 million of unsecured subordinated debentures. During 2012, cash used in financing activities primarily resulted from the payment of dividends to shareholders, repurchases of our common stock and repayments of collateral held for our securities lending program, partially offset by the proceeds from the FHLBB advances.

Dividends to common shareholders are subject to quarterly board approval and declaration. During the first nine months of 2013, as declared by the Board, we paid three quarterly dividends, each for \$0.33 per share to our shareholders, totaling \$43.8 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 and the Chaucer pension plan. The ultimate payment amounts for our benefit plans are based on several assumptions, including but not limited to, the rate of return on plan assets, the discount rate for benefit obligations, mortality experience, interest crediting rates, inflation and the ultimate valuation and determination of benefit obligations. Since differences between actual plan experience and our assumptions are almost certain, changes both positive and negative to our current funding status and ultimately our obligations in future periods are likely.

Our insurance subsidiaries maintain a high degree of liquidity within their respective investment portfolios in fixed maturity and short-term investments. We believe that the quality of the assets we hold will allow us to realize the long-term economic value of our portfolio, including securities that are currently in an unrealized loss position. We do not anticipate the need to sell these securities to meet our insurance subsidiaries' cash requirements since we expect our insurance subsidiaries to generate sufficient operating cash to meet all short-term and long-term cash requirements. 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.

Since October 2007 and through September 2013, our Board of Directors has authorized aggregate repurchases of our common stock of up to \$600 million, including a \$100 million increase in the program in May 2013. Repurchases may be executed using open market purchases, privately negotiated transactions, accelerated repurchase programs or other transactions. We are not required to purchase any specific number of shares or to make purchases by any certain date under this program. During the first nine months of 2013, we repurchased 1.6 million shares of our common stock at a cost of \$78.2 million.

Additionally, from time to time, we may also repurchase our debt. During the second quarter of 2013, we repurchased senior debentures with a net carrying value of \$39.2 million, maturing October 15, 2025 at a cost of \$50.5 million, resulting in a loss of \$11.3 million. Additionally, in January 2013, we repaid \$46.3 million of our FHLBB advances plus prepayment fees of \$7.8 million for a total payment of \$54.1 million. Additional information related to these borrowings is provided in Note 4 – "Debt" in the Notes to Interim Consolidated Financial Statements.

On March 20, 2013, we issued \$175 million aggregate principal amount of subordinated unsecured debentures due March 30, 2053. These debentures pay interest quarterly. We may redeem these debentures in whole at any time, or in part from time to time, on or after March 30, 2018, at a redemption price equal to their principal amount plus accrued and unpaid interest. If the debentures are not redeemed in whole, at least \$25.0 million aggregate principal amount of the debentures must remain outstanding.

We have a \$200.0 million committed syndicated credit agreement which expires in August 2015, with an option to increase the facility to \$250.0 million assuming no default and satisfaction of certain other conditions. The agreement also includes a \$50 million sub-facility for standby letters of credit that can be used for general corporate purposes. 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 three – month LIBOR plus applicable margin. The agreement provides covenants, including but not limited to, maintaining at least a certain level of consolidated equity, maximum consolidated leverage ratios, and an RBC ratio at our primary U.S. domiciled property and casualty companies. We had no borrowings under this agreement in 2012 and 2013.

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We have a Standby Letter of Credit Facility Agreement (the “Facility Agreement”) not to exceed \$180.0 million outstanding at any one time, with the option to increase the amount available for issuances of letters of credit to \$270.0 million in the aggregate on one occasion only during the term of the Facility Agreement (subject to the consent of all lenders and assuming no default and satisfaction of other specified conditions). The agreement provides certain covenants including, but not limited to, the syndicates’ financial condition. The current Facility Agreement provides regulatory capital supporting Chaucer’s underwriting activities through year-end 2013 and is generally renewed biennially to support new underwriting years. A letter of credit commission fee on outstanding letters of credit is payable quarterly, and ranges from 1.50% to 2.125% per annum, depending on our credit ratings for portions that are not cash collateralized, and 0.30% per annum for portions that are cash collateralized. We may, from time to time, collateralize a portion of the outstanding letter of credit. In addition to the commission fee on the uncollateralized outstanding letter of credit, a commitment fee in respect of the unutilized commitments under the Facility Agreement is payable quarterly, and ranges from 0.60% to 0.85% per annum, depending on our credit ratings. Chaucer is also required to pay customary agency fees.

Simultaneous with the Facility Agreement, we entered into a Guaranty Agreement (the “Guaranty Agreement”) with Lloyds TSB Bank plc, as Facility Agent and Security Agent, pursuant to which, we unconditionally guarantee the obligations of Chaucer under the Facility Agreement. The Guaranty Agreement contains certain financial covenants that require us to maintain a minimum net worth, a minimum risk-based capital ratio at our primary U.S. domiciled property and casualty companies and a maximum leverage ratio, and certain negative covenants that limit our ability, among other things, to incur or assume certain debt, grant liens on our property, merge or consolidate, dispose of assets, materially change the nature or conduct of our business and make restricted payments (except, in each case, as provided by certain exceptions). The Guaranty Agreement also contains certain customary representations and warranties.

At September 30, 2013, we were in compliance with the covenants of the aforementioned debt agreements.

Off-Balance Sheet Arrangements

We currently do not have any material off-balance sheet arrangements that are reasonably likely to have an 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 12 “Commitments and Contingencies” in the Notes to Interim Consolidated Financial Statements.

Risks and Forward-Looking Statements

Information regarding risk factors and forward-looking information appears in Part II – Item 1A of this Quarterly Report on Form 10-Q and in Part I – Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. This Management’s Discussion and Analysis should be read and interpreted in light of such factors.

ITEM 3

**QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK**

Our market risks, the ways we manage them, and sensitivity to changes in interest rates, equity price risk, and foreign currency exchange risk are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2012, included in our Annual Report on Form 10-K for the year ended December 31, 2012. There have been no material changes in the first nine months of 2013 to these risks or our management of them.

ITEM 4

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures Evaluation

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, 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). Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we 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 were no such changes during the quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

Reference is made to the litigation matter captioned “Durand Litigation” under “Commitments and Contingencies – Legal Proceedings” in Note 12 in 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”, “guidance”, “likely”, “on 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 2013 and beyond to differ materially from historical results and from those expressed in any of our forward-looking statements. We operate in a business environment that is continually changing, and as such, new risk factors may emerge over time. Additionally, our business is conducted in competitive markets and therefore involves a higher degree of risk. We cannot predict these new risk factors nor can we assess the impact, if any, that they may have on our business in the future. Some of the factors that could cause actual results to differ include, but are not limited to, the following:

- changes in the demand for our products;
- risks and uncertainties with respect to our ability to retain profitable policies in force and attract profitable policies and to increase rates commensurate with, or in excess of, loss trends;
- changes in our estimates of loss and loss adjustment expense reserves and accident year “picks”, resulting in lower current year underwriting income or adverse loss development, such as we have recently experienced in our Commercial and Personal Lines segments;
- changes in our estimates of premiums written, primarily in the Chaucer segment, resulting in lower current year underwriting income, such as we have recently experienced in our energy line;
- uncertainties with respect to the long-term profitability of our products, including with respect to new products such as our Platinum Personal Lines product or excess and surplus lines, or longer-tail products covering casualty losses;
- changes in frequency and loss trends;
- changes in regulation, economic, market and political conditions, particularly with respect to regions where we have geographical concentrations or with respect to Lloyd’s;
- volatile and unpredictable developments, including severe weather and other natural physical events, catastrophes and terrorist actions;
- changes in weather patterns, whether as a result of global climate change, or otherwise, causing a higher level of losses from weather events to persist;
- the availability of sufficient information to accurately estimate a loss at a point in time;
- risks and uncertainties with respect to our ability to collect all amounts due from reinsurers and to maintain current levels of reinsurance in the future at commercially reasonable rates, or at all;
- heightened volatility, fluctuations in interest rates (which have a significant impact on the market value of our investment portfolio and thus our book value), inflationary pressures, default rates and other factors that affect investment returns from our investment portfolio;
- fluctuations in currencies which affect the values of financial information converted from an originating currency to our reporting currency;
- 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 or by Lloyd’s Central Fund;
- actions by our competitors, many of which are larger or have greater financial resources than we do;
- loss or retirement of key employees;

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- 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 that may negatively impact our ability to conduct business;
- an inability to be compliant with new regulations such as those relating to sanctions, Solvency II or existing regulation such as Sarbanes-Oxley;
- unfavorable judicial or legislative developments; and
- other factors described in such forward-looking statements.

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

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, 2012.

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

Issuer Purchases of Equity Securities

Shares purchased in the third quarter of 2013 are as follows:

<i>Period</i>	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 (in millions) ⁽¹⁾
July 1 - 31, 2013 ⁽²⁾	13,127	\$ 49.46	—	\$ 143
August 1 - 31, 2013 ⁽²⁾	465	55.57	—	143
September 1 - 30, 2013 ⁽³⁾	116,364	51.29	115,200	137
Total	129,956	\$ 51.12	115,200	\$ 137

- (1) Since the announcement of our share repurchase program on October 29, 2007, the Board has authorized us to repurchase up to \$600 million in shares of our common stock, including a \$100 million increase in the program in May 2013, using open market purchases, privately negotiated transactions, accelerated repurchase programs or other transactions.
- (2) The total number of shares purchased reflects shares withheld to satisfy tax withholding amounts due from employees related to the receipt of stock which resulted from the exercise or vesting of equity awards.
- (3) Includes 1,164 shares withheld to satisfy tax withholding amounts due from employees related to the receipt of stock which resulted from the exercise or vesting of equity awards.

ITEM 6 – EXHIBITS

- EX – 10.1 The Hanover Insurance Group Cash Balance Pension Plan, as amended.
- 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 September 30, 2013 formatted in eXtensible Business Reporting Language (“XBRL”): (i) Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2012; (ii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012; (iii) Consolidated Balance Sheets at September 30, 2013 and December 31, 2012; (iv) Consolidated Statements of Shareholders’ Equity for the nine months ended September 30, 2013 and 2012; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, and (vi) related notes to these 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.

	<u>The Hanover Insurance Group, Inc</u> Registrant
<u>October 31, 2013</u> Date	<u>/s/ Frederick H. Eppinger, Jr.</u> Frederick H. Eppinger, Jr. President, Chief Executive Officer and Director
<u>October 31, 2013</u> Date	<u>/s/ David B. Greenfield</u> David B. Greenfield Executive Vice President, Chief Financial Officer and Principal Accounting Officer

**THE HANOVER INSURANCE GROUP CASH BALANCE
PENSION PLAN**

PART I

(As amended and restated generally effective January 1, 2010)

Part I

**THE HANOVER INSURANCE GROUP CASH BALANCE
PENSION PLAN**

PART I

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Part I

ARTICLE I

NAME, PURPOSE AND EFFECTIVE DATE OF PLAN

- 1.01 General Statement. The Hanover Insurance Group Cash Balance Pension Plan (the “**Plan**”) consists of three parts, Part I, Part II and Part III. Part I of the Plan provides a cash balance and pension benefit, which was formerly provided under a plan known as “The Allmerica Financial Cash Balance Pension Plan”. Part II of the Plan provides a pension benefit, which was formerly provided under a plan known as “The Allmerica Financial Agents’ Pension Plan”. Part III of the Plan contains provisions applicable to each of Part I and Part II.

The provisions of Part III of the Plan shall override any provision of Part I and or Part II of the Plan as provided in Part III of the Plan.

The benefits payable to eligible Participants under Part I of the Plan are governed by the terms and conditions of Part I of the Plan and Part III of the Plan. The definitions of terms as used in this Part I of the Plan are as set forth in Article II, except as otherwise provided in this Article I.

- 1.02 Name of Plan. The prior version of this Part I of the Plan, known as The Allmerica Financial Cash Balance Pension Plan, generally effective January 1, 1997 (“**The Allmerica Cash Balance Plan**”), was an amendment and restatement of the State Mutual Companies’ Pension Plan. It was adopted by First Allmerica Financial Life Insurance Company (“**First Allmerica**”) and its affiliates, Citizens Insurance Company (“**Citizens**”) and The Hanover Insurance Company (“**Hanover**”). Effective January 1, 1995, the State Mutual Companies Pension Plan added a cash balance benefit. Effective December 31, 1994, benefit accruals provided under the integrated unit credit benefit formula of the State Mutual Companies’ Pension Plan were frozen for all Participants, except Participants eligible for certain continuing benefit accruals. Certain other accruals and benefits under this Part I of the Plan were subsequently frozen as provided in this Part I.

Prior versions of this Part I of the Plan were sponsored by First Allmerica, formerly known as State Mutual Life Assurance Company of America, from January 1, 1941 to December 31, 2007. Effective January 1, 2008, this Part I of the Plan was adopted by Hanover, an Affiliate of First Allmerica, as the sole Employer. Effective January 1, 1992, a prior version of this Part I of the Plan was merged with The Allmerica Financial Agents’ Pension Plan (formerly known as the State Mutual Agents’ Pension Plan) (the “**Agents’ Pension Plan**”).

Benefits payable under the Agents’ Pension Plan are set forth in Part II of the Plan. Parts I and II of the Plan are permissively aggregated for purposes of the qualification and non-discrimination requirements applicable to the Plan under Sections 401 and 410 of the Internal Revenue Code.

1.03 Purpose. The Plan has been established for the exclusive benefit of Participants and their Beneficiaries and as far as possible shall be interpreted and administered in a manner consistent with this intent and consistent with the requirements of Section 401 of the Internal Revenue Code.

Subject to Article IV of Part III of the Plan (Limitations on Benefits) and to Section 10.04 of Part III of the Plan, which relates to the return of Employer contributions under special circumstances, until such time as the Plan has been terminated and all Plan liabilities have been satisfied, under no circumstances shall any assets of the Plan, or any contributions made under the Plan, be used for, or diverted to, purposes other than for the exclusive benefit of the Participants and their Beneficiaries and to defray reasonable expenses incurred in the administration of the Plan.

1.04 Restated Plan Effective Date. The effective date of this amended and restated Part I of the Plan is January 1, 2010 (except for those provisions of this Part of the Plan which have an alternative effective date). Except to the extent otherwise specifically provided in this Part I of the Plan, (i) the provisions of this amended and restated Part I of the Plan shall apply to a Participant who is in the employ of the Employer on or after January 1, 2010. The rights and benefits of any Participant whose employment with the Employer terminated prior to January 1, 2010 shall be determined in accordance with the provisions of this Part I of the Plan as were in effect at the appropriate time or times prior to January 1, 2010; provided, however, that if the Accrued Benefit of any such Participant has not been completely distributed before January 1, 2010, then such Accrued Benefit shall be accounted for and distributed in accordance with the provisions of this version of Part I of the Plan, but only to the extent that any such provision is not inconsistent with Part III of the Plan and subject to the requirements of applicable law.

ARTICLE II

DEFINITIONS

All section and article references in this Part I are to section and article references in this Part I, except as otherwise expressly provided.

As used in Parts I, II and III of the Plan, the following words and phrases shall have the meanings set forth in this Part I, unless a different meaning is clearly required by the context or is otherwise provided in Part II and or Part III of the Plan.

2.01 “Accrued Benefit”:

- (a) means, except as provided in (b) below, the sum of (i) the monthly retirement benefit payable as a single life annuity to the Participant beginning on his or her Normal Retirement Date which is the Actuarial Equivalent of the Participant’s Projected Account Balance, plus (ii) the Participant’s Grandfathered Benefit, if any.
- (b) means, with respect to the minimum benefit for Non-Key Employee Participants in a Top Heavy Plan, the sum of such benefits earned by the Participant, which

benefits are payable at the Participant's Normal Retirement Date and are described in Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans).

2.02 "Actuarial Equivalent" means a benefit having the same value as the benefit or benefits otherwise payable. Except as otherwise provided in this Section, the present value of any benefit determined under the terms of the Part I of the Plan will be the actuarial equivalent of the no-death benefit life annuity retirement benefit specified in Section 6.01.

Actuarial Equivalent life annuity settlements of Participant Projected Account Balances or of optional life annuity Top Heavy Plan benefits will be computed utilizing (i) the Code Section 417 Mortality Table and (ii) the Code Section 417 Interest Rate for determining the amount payable to a Participant having an annuity starting date on or after January 1, 2004.

Optional life annuity settlements of Grandfathered Benefits will be computed utilizing the 1983 Group Annuity Table with Projection H, with mortality rates based on calendar year of birth of 1930 and interest at the rate of 7% per annum. Adjustment factors used to determine optional forms of Grandfathered Benefits are included in Exhibit A, attached hereto and made a part of Part I of the Plan.

Adjustment factors for optional Grandfathered Benefits not illustrated will be computed on an actuarial basis consistent with that used in computing the factors shown in Exhibit A.

The present value (including, but not limited to, for purposes of Section 7.01(a)(i)(B), Section 7.01(a)(ii)(B) and determining eligibility for cashout distributions under Section 8.02) and the amount of any cash distribution of a Grandfathered Benefit or a benefit for Non-Key Employee Participants in a Top Heavy Plan shall be determined on the basis of (i) the mortality rates specified above and an interest rate of 7% per annum, or (ii) the Code Section 417 Mortality Table and the Code Section 417 Interest Rate (or for determining the amount payable to a Participant having an annuity starting date on and after January 1, 2008, the Code Section 417 Applicable Interest Rate), whichever produces the greater benefit.

The preceding paragraphs shall not apply to the extent they would cause the Plan to fail to satisfy the requirements of Article IV of Part III of the Plan (Limitations on Benefits) or Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans).

For purposes of the Part I of the Plan, (a) the " **Code Section 417 Mortality Table** " means the applicable mortality table prescribed by the Secretary of the Treasury pursuant to Code section 417(e)(3), as in effect from time to time, provided, however, that notwithstanding the preceding provisions of this paragraph, for distributions commencing on or after December 31, 2002 and prior to January 1, 2008, the Code Section 417 Mortality Table means the Table set forth in Revenue Ruling 2001-62 and for purposes of determining the amount payable to a Participant with an annuity starting date on or after

January 1, 2008, the Code Section 417 Mortality Table means the Table set forth in Revenue Ruling 2007-67 or such other Table as may be prescribed by the Secretary of the Treasury pursuant to Code Section 417(e)(3); (b) for periods beginning on and after January 1, 2004, the “ **Code Section 417 Interest Rate** ” means, for the Plan Year which contains the annuity starting date for the distribution, the annual rate of interest on 30-year Treasury securities in effect for the second month immediately preceding the first day of the Plan Year (*e.g.* , November 2009 for the 2010 Plan Year), and (c) for periods beginning on and after January 1, 2008, the “ **Code Section 417 Applicable Interest Rate** ” means, for the Plan Year which contains the annuity starting date for the distribution, the applicable interest rate described by Code section 417(e) after its amendment by the Pension Protection Act of 2006, which rate more specifically shall be the adjusted first, second, and third segment rates applied under rules similar to the rules of Code section 430(h)(2)(C) for the lookback month used to determine the previously applicable interest rate on 30-year Treasury securities (*e.g.* , November 2009 for the 2010 Plan Year) or for such other time as the Secretary of the Treasury may by regulations prescribe. For purposes of determining the Code Section 417 Applicable Interest Rate, the first, second, and third segment rates are the first, second, and third segment rates which would be determined under Code section 430(h)(2)(C) if:

- (i) Code section 430(h)(2)(D) were applied by substituting the average yields for the month described in clause (ii) below for the average yields for the 24-month period described in such Code section, and
- (ii) Code section 430(h)(2)(G)(i)(II) were applied by substituting “Section 417(e)(3)(A)(ii)(II) for “Section 412(b)(5)(B)(ii)(II)”, and
- (iii) The applicable percentage under Code section 430(h)(2)(G) is treated as being 20% in 2008, 40% in 2009, 60% in 2010, and 80% in 2011.

2.03 (a) “Affiliate” means any incorporated Career Agent of an Employer and corporation affiliated with the Employer through the action of such corporation’s board of directors and the Employer’s Board of Directors.

(b) Affiliate also means:

- (i) Any corporation or corporations which together with the Employer constitute a controlled group of corporations or an “affiliated service group”, as described in Sections 414 (b) and 414 (m) of the Internal Revenue Code as now enacted or as later amended and in regulations promulgated thereunder; and
- (ii) Any partnerships or proprietorships under the common control of the Employer.

2.04 “Age” means, except for purposes of determining lump sum cash distributions and optional life annuity benefits, the age of a person at his or her last birthday. Lump sum cash distributions and optional life annuity benefits will be determined on the basis of a person’s age nearest birthday.

2.05 "Allocation" means an amount equal to the percentage of a Participant's Eligible Compensation specified below for each of the Plan Years commencing on or after January 1, 1995 and prior to January 1, 2005.

Plan Year	Percentage
1995	7%
1996	7%
1997	7%
1998	7%
1999	7%
2000	7%
2001	5%
2002	3%
2003	5%
2004	5.5%

An Employee will not receive more than one Allocation for any Plan Year with respect to the same Compensation.

2.06 "Annuity Commencement Date" means the date as of which a benefit commences under the Plan.

2.07 "Beneficiary" means the person, trust, organization or estate designated to receive Plan benefits payable on or after the death of a Participant.

2.08 "Compensation" means:

- (a) For purposes of determining a Participant's Allocation specified in Section 4.02, the total wages or salary, overtime, bonuses, and any other taxable remuneration paid to an Employee by the Employer during the Plan Year, while the Employee is a Participant, as reported on the Participant's W-2 for the Plan Year; provided, however, that Compensation for this purpose shall be determined without reduction for (i) any Code Section 401(k) salary reduction contributions contributed on the Participant's behalf for the Plan Year to any defined contribution plan sponsored by the Employer and (ii) the amount of any salary reduction contributions contributed on the Participant's behalf for the Plan Year to any Code Section 125 plan sponsored by the Employer.

Notwithstanding the above, Compensation for the above purpose shall not include:

- (i) incentive compensation paid to Participants pursuant to the Employer's Executive Long Term Performance Unit Plan or pursuant to any similar or successor executive compensation plan;
 - (ii) Employer contributions to a deferred compensation plan or arrangement (other than salary reduction contributions to a Code Section 401(k) or 125 plan, as described above) either for the year of deferral or for the year included in the Participant's gross income;
 - (iii) any income which is received by or on behalf of a Participant in connection with the grant, receipt, settlement, exercise, lapse of risk of forfeiture or restriction on transferability, or disposition of any stock option, stock award, stock grant, stock appreciation right or similar right or award granted under any plan, now or hereafter in effect, of the Employer or any successor to the Employer, the Employer's parent, any such successor's parent, any subsidiaries or affiliates of the Employer, or any stock or securities underlying any such option, award, grant or right;
 - (iv) severance payments paid in a lump sum;
 - (v) Code Section 79 imputed income or long term disability and workers' compensation benefit payments;
 - (vi) taxable moving expense allowances or taxable tuition or other educational reimbursements;
 - (vii) for Plan Years commencing after December 31, 1998, compensation paid in the form of commissions;
 - (viii) non-cash taxable benefits provided to executives, including the taxable value of Employer-paid club memberships, chauffeur services and Employer-provided automobiles; and
 - (ix) other taxable amounts received other than cash compensation for services rendered, as determined by the Plan Administrator.
- (b) For purposes of Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans) and for purposes of Article IV of Part III of the Plan (Limitations on Benefits), the term "Compensation" means a Participant's wages, salaries, fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and

reimbursements or other expense allowances under a non-accountable plan (as described in Section 1.62-2(c) of the Regulations), and excluding the following:

- (i) Employer contributions to a plan of deferred compensation which are not includible in the Employee's gross income for the taxable year in which contributed, or Employer contributions under a simplified employee pension plan to the extent such contributions are deductible by the Employee, or any distributions from a plan of deferred compensation;
- (ii) amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by an Employee becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
- (iii) amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and
- (iv) other amounts which receive special tax benefits.

For Plan Years commencing after December 31, 1997, Compensation for purposes of the Part I of the Plan shall also include Employee elective deferrals under Code Section 402(g)(3), and amounts contributed or deferred by the Employer at the election of the Employee and not includible in the gross income of the Employee, by reason of Code Sections 125, 132(f)(4), 402(e)(3) and 402(h)(1)(B).

Additionally, amounts under Code Section 125 include any amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage (deemed Code Section 125 compensation). Such an amount will be treated as an amount under Code Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

- (c) Notwithstanding (a) and (b) above, for Plan Years beginning on or after January 1, 1994 and prior to January 1, 2002, the annual Compensation of each Participant taken into account for determining all benefits provided under Part I of the Plan for any determination period shall not exceed \$150,000. This limitation shall be adjusted for inflation by the Secretary under Code Section 401(a)(17)(B) in multiples of \$10,000 by applying an inflation adjustment factor and rounding the result down to the next multiple of \$10,000 (increases of less than \$10,000 are disregarded). The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Compensation is determined beginning in such calendar year.

If Compensation is being determined for a Plan Year that contains fewer than 12 calendar months, then the annual Compensation limit is an amount equal to the annual Compensation limit for the calendar year in which the Compensation period begins multiplied by the ratio obtained by dividing the number of full months in the period by 12.

If Compensation for any prior determination period is taken into account in determining a Participant's benefits for the current Plan Year, the Compensation for such prior determination period is subject to the applicable annual compensation limit in effect for that prior period. For this purpose, in determining benefits in Plan Years beginning on or after January 1, 1989, the annual Compensation limit in effect for determination periods beginning before that date is \$200,000. In addition, in determining benefits in Plan Years beginning on or after January 1, 1994, the annual Compensation limit in effect for determination periods beginning before that date is \$150,000.

- (d) Notwithstanding (a) and (b) above, the annual Compensation of each Participant taken into account in determining benefit accruals in any Plan Year beginning after December 31, 2001, shall not exceed \$200,000. Annual compensation means Compensation during the Plan Year or such other consecutive 12-month period over which Compensation is otherwise determined under the Part I of the Plan (the "**determination period**"). For purposes of determining benefit accruals in a Plan Year beginning after December 31, 2001, the annual Compensation for any prior determination period shall be limited to \$200,000.

The \$200,000 limit on annual Compensation for determination periods beginning after December 31, 2001 shall be adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to annual Compensation for the determination period that begins with or within such calendar year.

- 2.09 "Credited Service" means and includes all Hours of Service (except excluded Hours described in Subsection 2.23(b), (c), (g) and (h)) completed with the Employer as an eligible Employee on and after the date an Employee becomes a Participant in Part I of the Plan.

For purposes of the Part I of the Plan, a Participant shall receive a Year of Credited Service for each Plan Year in which he or she completes at least 1,000 Hours of Credited Service; provided that for the Plan Year in which an Employee initially becomes a Participant in Part I of the Plan, such Participant shall receive a Year of Credited Service if he or she completes at least 1,000 Hours of Service in the Plan Year.

A Participant who is absent because of sickness or injury shall receive Credited Service for the period described in Subsections 2.23(b) or (g). Except as provided in Section 6.05, if any such absence continues beyond such period, the Participant shall receive no further Credited Service.

Notwithstanding the rules for determining Credited Service described above:

- (i) Eligible Re-employed Pensioners of First Allmerica, Citizens, Hanover and General Agents of First Allmerica (as each is described in Section 6.09) shall receive no further Credited Service for periods of re-employment following their retirement unless they complete at least 1,000 Hours of Service in a Plan Year.

- (ii) If during a Plan Year a Participant is employed by the Employer as a member of an eligible class of Employees and is also employed by an Affiliate, employed as a member of an ineligible class of Employees or employed as a Career Agent or General Agent of First Allmerica, he or she shall receive Credited Service under this Part I of the Plan only for Hours of Service completed while employed as a member of an eligible class of Employees.
 - (iii) For purposes only of determining eligibility for early retirement and eligibility for the Rule of 85 and Rule of 95 subsidized Early Retirement Benefits described in Section 6.02, but not for purposes of computing the amount of benefits payable, Credited Service shall include Hours of Service completed with Craftsman Insurance Company and the Hanover Life Insurance Company, both former affiliates of Hanover, and as a Career Agent or General Agent of First Allmerica.
- 2.10 “Determination Date” means the date as of which a Participant’s Accrued Benefit is calculated.
- 2.11 “Eligible Compensation” means the Compensation taken into account for purposes of determining a Participant’s Allocation for a Plan Year pursuant to Section 4.02 of the Part I of the Plan. If a Participant is a Participant in Part I of the Plan on the first day of any Plan Year, such Participant’s Eligible Compensation shall be his or her Compensation for such Plan Year paid while the Participant is employed as a member of an eligible class of Employees. If an Employee becomes a Participant in Part I of the Plan on any day after the first day of a Plan Year, such Participant’s Eligible Compensation shall be his or her Compensation for such Plan Year paid on and after the date he or she becomes a Participant and while the Participant is employed as a member of an eligible class of Employees.
- 2.12 “Eligibility Computation Period” means a period of twelve consecutive months commencing on an Employee’s Employment Commencement Date or, if an Employee does not complete at least 1,000 Hours of Service during such initial period, such Employee’s Eligibility Computation Period means the Plan Year commencing with the first Plan Year following the Employee’s Employment Commencement Date and, if necessary, each succeeding Plan Year.
- 2.13 “Employee” means any employee who is employed by the Employer.
- 2.14 “Employer” means The Hanover Insurance Company.
- 2.15 “Employment Commencement Date” means the date on which an Employee first performs an Hour of Service or, in the case of an Employee who has a One-Year Break in Service, the date on which he or she first performs an Hour of Service after such Break.
- 2.16 “Fiduciary” means any person who (i) exercises any discretionary authority or discretionary control respecting management of the Plan or exercises any authority or

control respecting management or disposition of its assets; (ii) renders investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the Plan or has any authority or responsibility to do so; or (iii) has any discretionary authority or discretionary responsibility in the administration of the Plan, including, but not limited to, the Plan Administrator.

- 2.17 “First Allmerica” means First Allmerica Financial Life Insurance Company.
- 2.18 “Five Percent Owner” means, in the case of a corporation, any person who owns (or is considered as owning within the meaning of Code Section 318) more than five percent of the outstanding stock of the Employer or stock possessing more than five percent of the total combined voting power of all stock of the Employer. In the case of an Employer that is not a corporation; “Five Percent Owner” means any person who owns or under applicable regulations is considered as owning more than five percent of the capital or profits interest in the Employer. In determining percentage ownership hereunder, employers that would otherwise be aggregated under Code Sections 414(b), (c), and (m) shall be treated as separate employers.
- 2.19 “Former Participant” means a person who had been an active Participant in Part I or Part II of the Plan (as applicable), but who has ceased to accrue further Credited Service for any reason.
- 2.20 “Grandfathered Benefit” means either the Basic Grandfathered Benefit or the Special Grandfathered Benefit, as defined below.
- (a) “**Basic Grandfathered Benefit**” means the monthly retirement benefit payable as a single life annuity to an actively employed Participant on his or her Normal Retirement Date, calculated in accordance with the benefit formula set forth in Section 6.01 of Part I of the Plan, as in effect on December 31, 1994. Such benefit shall be calculated based on the Participant’s Average Monthly Compensation and Credited Service, determined as of December 31, 1994, based on the provisions of Part I of the Plan as in effect on such date.
- (b) “**Special Grandfathered Benefit**” means the monthly retirement benefit payable as a single life annuity to an actively employed Participant on his or her Normal Retirement Date, calculated in accordance with the benefit formula set forth in Section 6.01 of Part I of the Plan, as in effect on December 31, 1994. Such benefit shall be based on the Participant’s Average Monthly Compensation and Credited Service calculated as of the date of determination, both being determined in accordance with the provisions of Part I of the Plan as in effect on December 31, 1994. The Special Grandfathered Benefit is available only to Participants who were actively employed by the Employer or by an Affiliate and accruing Credited Service on December 31, 1994, whose age on December 31, 1994, when added to two times their Credited Service as of such date (determined in accordance with the provisions of Part I of the Plan as in effect on December 31, 1994), total at least 85.

For purposes of this Section “ **actively employed** ” means that the Participant was performing work duties for the Employer or an Affiliate on December 31, 1994 or was then absent by reason of a scheduled day off, paid vacation day, personal day, or sick day or was then absent due to an Employer-approved leave of absence. Additionally, a Participant shall be deemed to have been actively employed on December 31, 1994 if on such date the Participant was then employed by the Employer or by an Affiliate and was then receiving disability benefits under his or her Employer’s long-term disability benefit plan.

Notwithstanding the above, each Section 401(a)(17) Employee’s Special Grandfathered Benefit under this Part I of the Plan will be the greater of the Special Grandfathered Benefit determined for the Employee under (i) or (ii) below:

- (i) the Employee’s Special Grandfathered Benefit, calculated as described above, based on the Employee’s total Years of Credited Service as of the date of determination; or

- (ii) the sum of:
 - (A) the Employee’s Plan Accrued Benefit as of December 31, 1993, frozen in accordance with Section 1.401(a)(4)-13 of the Treasury Regulations, and
 - (B) the Employee’s Special Grandfathered Benefit determined under the benefit formula applicable for the 1994 Plan Year, as applied to the Employee’s Years of Credited Service (calculated as of the date of determination in accordance with the provisions of Part I of the Plan as in effect on December 31, 1994) for Plan Years beginning on or after January 1, 1994 and prior to January 1, 2005.

A “ **Section 401(a)(17) Employee** ” means an Employee whose Accrued Benefit as of a date on or after the first day of the first Plan Year beginning on or after January 1, 1994, is based on Compensation for a Year beginning prior to the first day of the first Plan Year beginning on or after January 1, 1994, that exceeded \$150,000.

Notwithstanding anything in Part I of the Plan to the contrary, if an Employee who is accruing additional Special Grandfathered Benefits ceases to be eligible to accrue further benefits under Part I of the Plan because of termination of employment, retirement, transfer to an ineligible class of Employees, or for any other reason, such Employee shall not be eligible to accrue any additional Special Grandfathered Benefits upon resumption of service as an otherwise eligible Employee of the Employer.

Notwithstanding anything in Part I of the Plan to the contrary, no additional Special Grandfathered Benefits shall accrue for periods after December 31, 2004. Except as provided in the following paragraph, the amount of a Participant’s

Special Grandfathered Benefit shall be frozen as of December 31, 2004, with such frozen Special Grandfathered Benefit being calculated based on the Participant's Average Monthly Compensation and Credited Service as of the earlier of December 31, 2004 or the date the Participant ceases to be eligible to accrue additional Special Grandfathered Benefits determined in accordance with the provisions of Part I of the Plan as in effect on such date.

If a Participant was eligible to accrue additional Special Grandfathered Benefits as of December 31, 2004 under the provisions of Part I of the Plan in effect on December 31, 2004, the amount of the Participant's frozen Special Grandfathered Benefit shall be increased to reflect increases in the cost of living after December 31, 2004 by:

- (i) 5% per annum, compounded annually, for each Plan Year commencing on or after January 1, 2005 and ending on the earlier of (A) the date the Participant commences distribution of his or her Special Grandfathered Benefit or (B) the last day of the month within which the Participant would have completed 35 years of Credited Service (based on the provisions of Part I of the Plan in effect on December 31, 2004) if he or she had remained in continuous employment with the Employer through such date (the "**Maximum Service Date**"), and
- (ii) If the Participant has not commenced receiving distribution of his or her Special Grandfathered Benefit prior to his or her Maximum Service Date, 3% per annum, compounded annually, for each Plan Year commencing after the Participant's Maximum Service Date and ending on the date the Participant begins receiving his or her Special Grandfathered Benefit.

If the Participant commences receiving distribution of his or her Special Grandfathered Benefit as of any date other than the first day of a Plan Year, the cost of living adjustment percentage for such Plan Year shall be determined by multiplying the applicable cost of living adjustment percentage for such year by a fraction the numerator of which is the number of full or partial months from the first day of such Plan Year until the date as of which distribution of the Participant's Special Grandfathered Benefit commences and the denominator of which is 12. If a Participant would have completed 35 years of Credited Service on a day other than the last day of the Plan Year, then the cost of living adjustment for such Plan Year shall be determined by multiplying 5% by a fraction the numerator of which is the number of full or partial months from the first day of such Plan Year until the date the Participant would have completed 35 years of Credited Service and the denominator of which is 12. The remaining months of the Plan Year after the Participant would have completed 35 years of Credited Service will be credited with a cost of living adjustment determined by multiplying 3% by a fraction the numerator of which is the remaining full months of such Plan Year and the denominator of which is 12. The foregoing cost of living adjustment provided in this Subsection 2.20(b) shall be applied to each eligible Participant's Special Grandfathered Benefit without regard to his or her

employment status after December 31, 2004. A Participant will not be eligible for this cost of living adjustment if the Participant had ceased accruing additional Special Grandfathered Benefits prior to December 31, 2004 due to the Participant's retirement, death or other termination of employment prior to December 31, 2004.

2.21 "Group Annuity Contract" means the group annuity contract or contracts issued by the Insurer through which benefits of the Plan are to be funded.

2.22 "Highly Compensated Employee" means any Employee who:

- (a) was a Five Percent Owner at any time during the Plan Year or the preceding Plan Year; or
- (b) for the preceding Plan Year:
 - (i) had Compensation from the Employer in excess of \$80,000 (as adjusted pursuant to Code Section 414(q)(1)), and
 - (ii) for such preceding Plan Year was in the top-paid group of Employees for such preceding Year.

For purposes of this Section the "**top-paid group**" for a Plan Year is the top 20% of Employees ranked on the basis of Compensation paid during such Year.

In addition to the foregoing, the term "Highly Compensated Employee" shall also mean any former Employee who separated from service prior to the Plan Year, performs no service for the Employer during the Plan Year, and was an actively employed Highly Compensated Employee in the separation year or any Plan Year ending on or after the date the Employee attained Age 55.

In determining whether an Employee is a Highly Compensated Employee for Plan Years beginning in 1997, the Amendments of Code Section 414(q) stated above are treated as having been in effect for Plan Years beginning in 1996.

For purposes of this Section, Compensation means Compensation determined for purposes of Article IV of Part III of the Plan (Limitations on Benefits) but, for Plan Years beginning before January 1, 1998, without regard to Code Sections 125, 402(e)(3) and 402(h)(1)(B).

The determination of who is a Highly Compensated Employee, including the determinations of the numbers and identity of employees in the top-paid group and the Compensation that is considered will be made in accordance with Section 414(q) of the Code and regulations thereunder.

2.23 "Hour of Service" means:

- (a) Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer. For purposes of Part I of the Plan an Employee who is exempt from the requirements of the Fair Labor Standards Act of 1938, as amended, shall be credited with 45 Hours of Service for each complete or partial week he or she would be credited with at least one Hour of Service under this Section 2.23.
- (b) Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Notwithstanding the preceding sentence:
 - (i) No more than the number of Hours in one regularly scheduled work year of the Employer shall be credited to an Employee under this Subsection (b) on account of any single continuous period during which the Employee performs no duties (whether or not such period occurs in a single computation period);
 - (ii) No hours shall be credited under this Subsection (b) for any payments made or due under a plan maintained solely for the purpose of complying with any applicable workers' compensation, unemployment compensation or disability insurance laws; and
 - (iii) No hours shall be credited under this Subsection (b) for a payment which solely reimburses an Employee for medical or medically related expenses incurred by the Employee.

For purposes of this Subsection (b) a payment shall be deemed to be made by or due from the Employer regardless of whether such payment is made by or due from the Employer directly, or indirectly through, among others, a trust fund or insurer, to which the Employer contributes or pays premium.

- (c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service shall not be both credited under Subsections (a) or (b), as the case may be, and under this Subsection. No more than 501 Hours shall be credited under this Subsection for a period of time during which an Employee did not or would not have performed duties.
- (d) Special rules for determining Hours of Service under Subsections (b) and (c) for reasons other than the performance of duties.

In the case of a payment which is made or due which results in the crediting of Hours of Service under Subsection (b) or in the case of an award or agreement for back pay, to the extent that such an award or agreement is made with respect to a

period during which an Employee performs no duties, the number of Hours of Service to be credited shall be determined as follows:

- (i) In the case of a payment made or due which is calculated on the basis of units of time (such as hours, days, weeks or months), the number of Hours of Service to be credited for “exempt” Employees described in Subsection (a) shall be determined as provided in such Subsection. For all other Employees, the Hours of Service to be credited shall be those regularly scheduled hours in such unit of time; provided, however, that when an Employee does not have regularly scheduled hours, such Employee shall be credited with 8 Hours of Service for each workday for which he or she is entitled to be credited with Hours of Service under paragraph (b).
- (ii) Except as provided in Paragraph (d)(iii), in the case of a payment made or due which is not calculated on the basis of units of time, the number of Hours of Service to be credited shall be equal to the amount of the payment divided by the Employee’s most recent hourly rate of compensation (as determined below) before the period during which no duties are performed.
 - (A) The hourly rate of compensation of Employees paid on an hourly basis shall be the most recent hourly rate of such Employees.
 - (B) In the case of Employees whose compensation is determined on the basis of a fixed rate for specified periods of time (other than hours) such as days, weeks or months, the hourly rate of compensation shall be the Employee’s most recent rate of compensation for a specified period of time (other than an hour), divided by the number of hours regularly scheduled for the performance of duties during such period of time. The rule described in Paragraph (d)(i) shall also be applied under this subparagraph to Employees without a regular work schedule.
 - (C) In the case of Employees whose compensation is not determined on the basis of a fixed rate for specified periods of time, the Employee’s hourly rate of compensation shall be the lowest hourly rate of compensation paid to Employees in the same job classification as that of the Employee or, if no Employees in the same job classification have an hourly rate, the minimum wage as established from time to time under Section 6(a)(1) of the Fair Labor Standards Act of 1938, as amended.
- (iii) Rule against double credit. An Employee shall not be credited on account of a period during which no duties are performed with more hours than such employee would have been credited but for such absence.

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- (e) Crediting of Hours of Service to computation periods.
- (i) Hours of Service described in Subsection (a) shall be credited to the Employee for the computation period or periods in which the duties are performed.
 - (ii) Hours of Service described in Subsection (b) shall be credited as follows:
 - (A) Hours of Service credited to an Employee on account of a payment which is calculated on the basis of units of time (such as hours, days, weeks or months) shall be credited to the computation period or periods in which the period during which no duties are performed occurs, beginning with the first unit of time to which the payment relates.
 - (B) Hours of Service credited to an Employee by reason of a payment which is not calculated on the basis of units of time shall be credited to the computation period in which the period during which no duties are performed occurs, or if the period during which no duties are performed extends beyond one computation period, such Hours of Service shall be allocated between not more than the first two computation periods in accordance with reasonable rules established by the Employer, which rules shall be consistently applied with respect to all Employees within the same job classification, reasonably defined.
 - (iii) Hours of Service described in Subsection (c) shall be credited to the computation period or periods to which the award or agreement for back pay pertains, rather than to the computation period in which the award, agreement or payment is made.
- (f) For purposes only of determining participation and vesting under Part I of the Plan, Hours of Service shall include periods of service calculated in accordance with the rules set forth in the other Subsections of this Section 2.23:
- (i) with the Employer in a job or position in which the Employee was not eligible to participate in this Part I of the Plan; or
 - (ii) as a Career Agent or General Agent of First Allmerica;
 - (iii) for periods prior to January 1, 1998, with Citizens, Hanover or as an employee of a General Agent of First Allmerica;
 - (iv) with Financial Profiles, Inc., or Advantage Insurance Network, Affiliates of First Allmerica, including periods of service completed prior to the date it became an Affiliate; or
 - (v) with an Affiliate.

- (g) Rules for Non-Paid Leaves of Absence. For purposes of Part I of the Plan, a Participant will also be credited with Hours of Service during any non-paid leave of absence granted by the Employer. Except as provided in Subsection (a) for exempt Employees, the number of Hours of Service to be credited under this Subsection (g) shall be the number of regularly scheduled working hours in each workday during the leave of absence; provided, however, that no more than the number of Hours in one regularly scheduled work year of the Employer will be credited for each non-paid leave of absence. In the case of a non-exempt Employee without a regular work schedule, the number of Hours to be credited shall be based on a 40 hour work week and an 8 hour workday. Hours of Service described in this Subsection (g) shall be credited to the Employee for the computation period or periods during which the leave of absence occurs.

Notwithstanding the foregoing, for Plan Years beginning after December 31, 1998, all Employees (exempt and non-exempt) shall be credited with 8 Hours of Service for each workday for which they are entitled to be credited with Hours of Service for a non-paid leave of absence pursuant to this Subsection (g).

- (h) Rules for Maternity or Paternity Leaves of Absence. In addition to the foregoing rules and solely for purposes of determining whether a One Year Break in Service for participation and vesting purposes has occurred in a computation period, an individual who is absent for maternity or paternity reasons shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence, or in any case in which such Hours cannot be determined, 8 Hours of Service per day of such absence. Provided, however, that:
- (i) Hours shall not be credited under both this paragraph (h) and one of the other paragraphs of this Section 2.23;
 - (ii) no more than 501 Hours shall be credited for each maternity or paternity absence; and
 - (iii) if a maternity or paternity leave extends beyond one Plan Year, the Hours shall be credited to the Plan Year in which the absence begins to the extent necessary to prevent a One Year Break in Service, otherwise such Hours shall be credited to the following Plan Year.

For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (i) by reason of the pregnancy of the individual, (ii) by reason of a birth of a child of the individual, (iii) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement.

- (i) Other Federal Law. Nothing in this Section 2.23 shall be construed to alter, amend, modify, invalidate, impair or supersede any law of the United States or any rule or regulation issued under any such law.

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- 2.24 “Insurer” means First Allmerica.
- 2.25 “Internal Revenue Code” or “Code” means the Internal Revenue Code of 1986, as amended, and any future Internal Revenue Code or similar Internal Revenue laws.
- 2.26 “Key Employee”. In determining whether the Plan (in the aggregate, including Parts I, II, and III) is top-heavy for Plan Years beginning after December 31, 2001, “Key Employee” means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the determination date is: (a) an officer of the Employer (as that term is defined within the meaning of Code Section 416 and the regulations thereunder) having an annual Compensation greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a (b) Five Percent Owner, or (c) a 1-percent owner of the Employer having an annual Compensation of more than \$150,000. In determining whether a Plan is top heavy for Plan Years beginning before January 1, 2002, “Key Employee” means any Employee or former Employee (including any deceased Employee) who at any time during the 5-year period ending on the determination date, is (i) an officer of the Employer (as that term is defined within the meaning of Code Section 416 and the regulations thereunder) having an annual Compensation that exceeds 50 percent of the dollar limitation under Code Section 415(b)(1)(A), (ii) an owner (or an individual considered an owner under Code Section 318) of one of the ten largest interests in the Employer if such individual’s Compensation exceeds 100 percent of the dollar limitation under Code Section 415(c)(1)(A), (ii) a Five Percent Owner, or (iv) a 1-percent owner of the Employer who has an annual Compensation of more than \$150,000.
- The determination of who is a Key Employee will be made in accordance with Section 416(i)(1) of the Internal Revenue Code and the Treasury Regulations and other guidance of general applicability issued thereunder. For purposes of determining whether a Participant is a Key Employee, the Participant’s Compensation means Compensation as defined for purposes of Article IV of Part III of the Plan (Limitations on Benefits), but for Plan Years beginning before January 1, 1998, without regard to Code Sections 125, 402(e)(3) and 402(h)(1)(B).
- 2.27 “Limitation Year” means a calendar year.
- 2.28 “Non-Highly Compensated Employee” means any employee who is not a Highly Compensated Employee.
- 2.29 “Non-Key Employee” means any Employee who is not a Key Employee.
- 2.30 “Normal Retirement Age” means Age 65.
- 2.31 “Normal Retirement Date” means the first day of the month in which the Participant’s Normal Retirement Age occurs.
- 2.32 “One Year Break in Service” means any Plan Year, or for purposes of Article III, Eligibility Computation Period, during which the Employee has not completed more than 500 Hours of Service.

- 2.33 "Participant" means any eligible Employee who participates in the Plan as provided in Article III of Part I of the Plan and or Article III of Part II of the Plan as applicable; and who has not for any reason become ineligible to participate further in the Plan.
- 2.34 "Plan Administrator" means the Benefits Committee, which shall have fiduciary responsibility for the interpretation and administration of the Plan as provided in Article VII of Part III of the Plan (Plan Fiduciary Responsibilities). Members of the Benefits Committee shall be appointed as provided in Section 8.01 of Part III of the Plan.
- 2.35 "Plan Sponsor" means the Employer.
- 2.36 "Plan Year" means a calendar year.
- 2.37 "Plan Year Allocation Date" means for any Plan Year the date each Participant's Account shall be credited with an Allocation for the Plan Year. Such date shall be the March 1 following the Plan Year with respect to which the Allocation is made.
- Notwithstanding the foregoing, for Plan Years beginning after December 31, 1997 the Plan Year Allocation Date means the first business day of March following the Plan Year with respect to which the Allocation is made.
- 2.38 "Projected Account Balance" means:
- (a) With respect to a Participant who has attained his or her Normal Retirement Date on the Determination Date, the Participant's Account Balance as of such Determination Date; and
 - (b) With respect to a Participant who has not attained his or her Normal Retirement Date as of the Determination Date, the projected value of the Participant's Account Balance as of his or her Normal Retirement Date determined as if (i) the Participant has a separation from service on the Determination Date, and (ii) the Participant's Account Balance is credited with earnings on a daily basis based upon an annual effective rate equal to the Code Section 417 Interest Rate (as defined in Section 2.02) from the Determination Date through the Participant's Normal Retirement Date. Notwithstanding anything in Part I of the Plan to the contrary, in determining a Participant's Projected Account Balance, the Code Section 417 Interest Rate in effect for the Plan Year that contains the Determination Date shall be assumed to remain the same for all future Plan Years.
- 2.39 "Qualified Domestic Relations Order" means any judgment, decree or order (including approval of a property settlement agreement) which:
- (a) relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of a Participant;
 - (b) is made pursuant to a state domestic relations law (including a community property law);

- (c) constitutes a “qualified domestic relations order” within the meaning of Section 414(p) of the Code; and
- (d) is entered on or after January 1, 1985.

Effective April 6, 2007, a domestic relations order that otherwise satisfies the requirements for a qualified domestic relations order (“**QDRO**”) will not fail to be a QDRO: (i) solely because the order is issued after, or revises, another domestic relations order or QDRO; or (ii) solely because of the time at which the order is issued, including issuance after the annuity starting date or after the Participant’s death.

- 2.40 “Qualified Joint and Survivor Annuity” means an immediate annuity for the life of the Participant, with a survivor annuity for the life of the Participant’s spouse which is not less than one-half, nor greater than, the amount of the annuity payable during the joint lives of the Participant and the Participant’s spouse. The Qualified Joint and Survivor Annuity (i) for the purposes of Part I of the Plan will be the Actuarial Equivalent of the Plan’s no-death benefit life annuity normal form of benefit; and (ii) for the purposes of Part II of the Plan will be the Actuarial Equivalent of the Plan’s normal form of benefit.
- 2.41 “Top Heavy Plan” means for any Plan Year beginning after December 31, 1983 that any of the following conditions exists:
- (i) If the top heavy ratio (as defined in Article II of Part III of the Plan) for this Plan exceeds 60 percent and this Plan is not part of any required aggregation group or permissive aggregation group of plans.
 - (ii) If this Plan is a part of a required aggregation group and part of a permissive aggregation group and the top heavy ratio for the group of plans exceeds 60 percent.
 - (iii) If this Plan is a part of a required aggregation group and part of a permissive aggregation group of plans and the top heavy ratio for the permissive aggregation group exceeds 60 percent.

See Article II of Part III of the Plan for requirements and additional definitions applicable to Top Heavy Plans.

- 2.42 “Top Heavy Plan Year” means that, for a particular Plan Year commencing after December 31, 1983, the Plan is a Top Heavy Plan.
- 2.43 “Trustee” means the bank, trust company or person(s) who shall be constituted the original trustee or trustees for the Plan and Trust created therefor, and also any such successor trustee or trustees. The duties and responsibilities of the Trustee are set forth in the Trust Indenture in the form annexed hereto.
- 2.44 “Year of Service” means, any Plan Year during which an Employee completes at least 1,000 Hours of Service; provided, however, that for purposes of determining Plan entry under Article III of Part I of the Plan, Year of Service means an Eligibility Computation

Period during which an Employee completes at least 1,000 Hours of Service; provided, further however, that for purposes of determining Plan entry under Article III of Part II of the Plan, Year of Service shall mean any twelve consecutive month period during which he completes 1,000 Hours of Service computed from the date an Employee first performs an Hour of Service, or any anniversary thereof (or again performs an Hour of Service upon re-employment following a termination resulting in a One Year Break in Service).

ARTICLE III

PARTICIPATION REQUIREMENTS

3.01 Participation Requirements.

- (a) Employee Participation. Individuals who were Participants in Part I of the Plan on December 31, 2009 shall continue to be Participants in Part I of the Plan on January 1, 2010.

Notwithstanding anything in Part I of the Plan to the contrary, for periods commencing on and after January 1, 2005, (i) no Employee who had not previously been a Participant in Part I of the Plan shall become a Participant in Part I of the Plan, and (ii) a Former Participant who is re-employed as an Employee shall be reinstated as an active Participant in Part I of the Plan but only for purposes of increasing Plan vesting on his or her frozen Accrued Benefit and for purposes of determining eligibility for early retirement under Section 6.02.

For Plan Years that commenced prior to January 1, 2005, an Employee became eligible to be a Participant on the first day of the calendar month coincident with or next following completion of one Year of Service, provided he or she was then an eligible Employee.

Eligible Employees who were actively employed and who were Participants in The Allmerica Financial Cash Balance Pension Plan as adopted by Citizens Insurance Company of America or in The Allmerica Financial Cash Balance Pension Plan as adopted by The Hanover Insurance Company, each of which were merged with and into this Part I of the Plan, became Participants in this Part I of the Plan on January 1, 1998.

Notwithstanding the foregoing: (i) an Employee who was formerly employed by Financial Profiles, Inc. shall not become eligible to become a Participant in this Part I of the Plan until January 1, 1999; and (ii) an Employee who was formerly employed by Advantage Insurance Network shall not become eligible to become a Participant in this Part I of the Plan until August 1, 1999.

Notwithstanding the foregoing, the following persons shall not be eligible to become or remain active Participants in Part I of the Plan:

- (i) Employees who are or were eligible to participate in The Allmerica Financial Agents' Retirement Plan;

- (ii) Retirees of First Allmerica or retirees of General Agents of First Allmerica who are receiving retirement benefits under this Part I of the Plan whose current period of post-retirement re-employment with First Allmerica, Citizens or Hanover began prior to January 1, 1988;
 - (iii) Retirees of Citizens or Hanover who are receiving retirement benefits under this Part I of the Plan whose current period of post-retirement re-employment with First Allmerica, Citizens or Hanover began prior to January 1, 1993;
 - (iv) Leased Employees, within the meaning of Code Sections 414(n) and (o);
 - (v) A contractor's employee, i.e., a person working for a company providing goods or services (including temporary employee services) to the Employer or to an Affiliate whom the Employer does not regard to be its common law employee, as evidenced by its failure to withhold taxes from his or her compensation, even if the individual is actually the Employer's common law employee; or
 - (vi) An independent contractor, i.e., a person who is classified by the Employer as an independent contractor, as evidenced by its failure to withhold taxes from his or her compensation, even if the individual is actually the Employer's common law employee.
- (b) Reeligibility of Former Participants . A Former Participant, who again becomes eligible to participate in Part I of the Plan, will become a Participant in Part I of the Plan on the date of his or her recommencement of service with the Employer. Any other former Employee who again becomes eligible will become a Participant on the entry date determined under the rules set forth in Subsection (a).

3.02 Classification Changes . In the event of a change in job classification, such that an Employee, although still in the employment of the Employer, no longer is an eligible Employee, he or she shall receive no further Credited Service under Part I of the Plan, and the Participant's Accrued Benefit on the date he or she becomes ineligible shall continue to vest, become payable or be forfeited, as the case may be, in the same manner and to the same extent as if the Employee had remained an eligible Participant.

For periods commencing prior to January 1, 2005, in the event a Participant becomes ineligible to accrue further Credited Service because he or she is no longer a member of an eligible class of Employees, but has not terminated his or her employment with an Employer, such Participant shall again be eligible to accrue further Credited Service immediately upon his or her return to an eligible class of Employees.

In the event an Employee who is not a member of the eligible class of Employees becomes a member of the eligible class, such Employee shall participate immediately if such Employee has satisfied the minimum service requirements of Part I of the Plan, and would have previously become a Participant had he or she been in the eligible class.

- 3.03 Participant Cooperation, Participant Refusal. Each Employee who is eligible shall become a Participant on the entry date specified in Subsection 3.01(a) unless he or she notifies the Plan Administrator in writing prior to such entry date that he or she does not wish to be a Participant under this Part I of the Plan. Any such election not to participate in this Part I of the Plan shall be irrevocable. In order to waive participation in this Part I of the Plan, an Employee must agree to irrevocably waive his or her right to become a Participant in any other qualified retirement plan sponsored by the Employer. Each eligible Employee who becomes a Participant hereunder thereby agrees to be bound by all of the terms and conditions of this Part I of the Plan. Each eligible Employee, by becoming a Participant in this Part I of the Plan, agrees to cooperate fully with the Insurer, including completion and signing of such forms as are required by the Insurer under the Group Annuity Contract.

ARTICLE IV

PARTICIPANT ACCOUNTS

- 4.01 Establishment of Accounts. For Plan Years commencing on or after January 1, 1995, a memorandum Account shall be established under Part I of the Plan for each Participant. Such Account shall be credited with Allocations in accordance with Section 4.02 and shall be adjusted in accordance with Section 4.03 and for any distributions in accordance with Section 4.04. The resultant value determined at any time, after the operation of Sections 4.02, 4.03 and 4.04, shall be the “**Participant’s Account Balance**”. The memorandum Account is part of a mechanism for computing benefits under Part I of the Plan. Accordingly, there need be no relationship between Participants’ Account Balances and the amount or nature of Plan assets.
- 4.02 Allocations to Accounts. For each Plan Year commencing on or after January 1, 1995 and prior to January 1, 2005 during which a Participant completes a Year of Credited Service and, regardless of the number of Hours of Service credited to the Participant, for any such Plan Year during which a Participant dies or first retires, such Participant’s Account shall be credited with an Allocation for such Plan Year as of the Plan Year Allocation Date. Allocations under the Plan are part of the mechanism for computing benefits under the Plan and do not relate to actual contributions to the Plan.
- Notwithstanding anything in the Plan to the contrary, no Allocations shall be credited to Participants for Plan Years beginning on or after January 1, 2005; provided, however, (i) that Allocations shall be credited to eligible Participants for the 2004 Plan Year as of the 2004 Plan Year Allocation Date and (ii) memorandum Accounts shall continue to be credited with investment experience credits after December 31, 2004, as provided in Section 4.03 of Part I of the Plan.
- 4.03 Adjustments of Accounts.
- (a) Adjustment for Earnings for Plan Years beginning on and after January 1, 2004. For each Plan Year beginning on or after January 1, 2004, each Participant’s Account shall be credited with earnings on a daily basis based upon an annual effective rate equal to the Code Section 417 Interest Rate in effect for such Plan Year.

- (b) Adjustment for Investment Experience for Plan Years beginning on or after January 1, 1995 and before January 1, 2004. For each Plan Year beginning on or after January 1, 1995 and before January 1, 2004, Participants in Part I of the Plan shall make investment experience elections with respect to their respective Account Balances from among choices prescribed by the Plan Administrator. The specific investment choices and the time and manner of making elections may be changed from time to time. Each Participant's Account Balance shall be adjusted to reflect investment experience in the same manner as if the Account Balance were actually invested pursuant to the Participant's elections and as if each Allocation were actually a contribution made to the Plan on the relevant Plan Year Allocation Date.

4.04 Distributions. The Account Balance shall be decreased for any non-annuity distributions paid to the Participant or his or her Beneficiary. In the event a benefit becomes payable as an annuity in accordance with Article VI or as a survivor annuity in accordance with Article VII, the Account Balance shall be decreased by the Actuarial Equivalent of such annuity as of the Annuity Commencement Date.

ARTICLE V

EMPLOYER CONTRIBUTIONS

5.01 Employer Contributions.

- (a) Employer Contributions for Plan Years beginning after December 31, 1997. The Employer shall contribute for each Plan Year during which Part I of the Plan is in effect that amount, if any, which the enrolled actuary for the Plan determines is necessary to fund the Plan under the actuarial cost method in effect for the Plan. No contributions will be required of or permitted by Employees.
- (b) Employer Contributions for Plan Years beginning prior to January 1, 1998. Each Employer shall contribute for each Plan Year during which the Plan is in effect that amount, if any, which the enrolled actuary for the Plan determines is necessary to fund Part I of the Plan under the actuarial costs method in effect for Part I of the Plan. No contributions will be required of or permitted by Employees.

Except as provided below, contributions paid by each Employer and earnings thereon will be used only to fund Plan costs and benefits for its Employees and will not be used to fund Plan costs and benefits for any other Employees. Notwithstanding the foregoing:

- (i) Plan contributions paid by First Allmerica and General Agents of First Allmerica and earnings thereon will be used to fund Plan costs and benefits of both First Allmerica and such General Agents.

- (ii) Plan contributions paid by First Allmerica and General Agents of First Allmerica and earnings thereon will also be used to fund costs and benefits of The Allmerica Financial Agents' Pension Plan (Part II of the Plan), which plan was merged with this Part I of the Plan on January 1, 1992.
- 5.02 Payment of Contributions to Trustee. The Employer shall make payment of all contributions directly to the Trustee to be held, managed and invested in one or more Group Annuity Contracts and in other investments permitted under the Trust, but subject to Section 5.03.
- 5.03 Receipt of Contributions by Trustee. The Trustee shall accept and hold under the Trust such contributions of money, or other property approved by the Employer for acceptance by the Trustee, on behalf of the Employer and its Employees and Beneficiaries as it may receive from time to time from the Employer, other than cash it is instructed to remit to the Insurer for deposit with the Insurer. However, the Employer may pay contributions directly to the Insurer and such payment shall be deemed a contribution to the Trust to the same extent as if payment had been made to the Trustee. All such contributions shall be accompanied by written instructions from the Plan Administrator or its designee accounting for the manner in which they are to be credited.

ARTICLE VI

RETIREMENT AND DISABILITY BENEFITS

- 6.01 Normal Retirement Benefit. Subject to Section 6.07, each Participant who retires on his or her Normal Retirement Date (and each Former Participant with a vested benefit deferred to his or her Normal Retirement Date) shall be entitled to receive a monthly life annuity commencing on such Date and terminating on the last regular payment date prior to his or her death, which monthly benefit shall equal the Participant's Accrued Benefit (or, in case of each Former Participant with a vested benefit, the Former Participant's vested Accrued Benefit).

Notwithstanding the foregoing, the Grandfathered Benefit (if any) of each Participant shall not be less than the largest periodic Grandfathered Benefit that would have been payable to the Participant upon separation from service at or prior to Normal Retirement Age under Part I of the Plan. For purposes of comparing periodic benefits in the same form commencing prior to and at Normal Retirement Age, the greater benefit is determined by converting the benefit payable prior to Normal Retirement Age into the same form of annuity benefit payable at Normal Retirement Age and comparing the amount of such annuity payments.

Notwithstanding the foregoing, Non-Key Employees who are Participants in a Top Heavy shall be entitled to the minimum benefit described in Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans) if such benefit is greater than the benefit provided by this Section 6.01.

Each actively employed Participant's Accrued Benefit shall become 100% vested and nonforfeitable when the Participant attains his or her Normal Retirement Age. An actively employed Participant may terminate employment with the Employer and retire on his or her Normal Retirement Date. Upon such date the Participant shall be entitled to receive, or to begin to receive, his or her Normal Retirement Benefit.

The Plan Administrator shall notify the Trustee (and Insurer, if appropriate) as and when the Normal Retirement Age and Normal Retirement Date of each Participant shall occur and shall also advise the Trustee (and Insurer, if appropriate) as to the manner in which retirement benefits are to be distributed to a Participant, subject to the provisions of this Article. Upon receipt of such notification and subject to the other provisions of this Article, the Trustee or Insurer shall take such action as may be necessary in order to commence payment of the Participant's Normal Retirement Benefit.

6.02 Early Retirement Benefit . Any actively employed Participant who has completed at least fifteen Years of Service (or, if earlier, who has completed at least fifteen Years of Credited Service, with Years of Credited Service completed before 1995 being determined in accordance with the terms of Part I of the Plan as in effect on December 31, 1994) may elect to retire on the first day of any month following attainment of Age 55, in which event he or she shall receive, subject to Section 6.07 in the case of a married Participant, a monthly life annuity commencing on the date of his or her early retirement and terminating on the last regular payment date prior to his or her death. Each early retiree's monthly life annuity will be equal to the Actuarial Equivalent of the early retiree's Accrued Benefit, except that the portion of the Accrued Benefit attributable to the Participant's Grandfathered Benefit, if any, shall equal the early retiree's Grandfathered Benefit multiplied by the appropriate percentage.

Retirement Age	Percentage of Monthly Grandfathered Benefit*
65	100
64	93 ¹ / ₃
63	86 ² / ₃
62	80
61	73 ¹ / ₃
60	66 ² / ₃
59	63 ¹ / ₃
58	60
57	56 ² / ₃
56	53 ¹ / ₃
55	50

* If benefit payments commence in a month other than the month in which the Participant attains the specified Age, the percentage shall be determined by straight line interpolation.

Provided, however, that an actively employed Participant (i) who is entitled to a Special Grandfathered Benefit, (ii) who has been continuously employed as a member of an eligible class of Employees from January 1, 1995 until the date of his or her early retirement, and (iii) whose combined Age and Years of Credited Service as of the date of determination (calculated in accordance with the provisions of Part I of the Plan in effect on December 31, 1994) total at least 85 (the "Rule of 85") shall be entitled to receive a Special Grandfathered Benefit determined without the above actuarial reduction.

Provided, however, that an actively employed Participant (i) who is entitled to a Grandfathered Benefit, (ii) who has attained Age 62, and (iii) whose combined Age and Years of Credited Service as of the date of determination (calculated in accordance with the provisions of Part I of the Plan in effect on December 31, 1994) total at least 95 (the "Rule of 95") shall be entitled to receive a Grandfathered Benefit determined without the above actuarial reduction.

For purposes of determining eligibility for the Rule of 85 and Rule of 95 subsidized early retirement benefits, but not for purpose of computing actual benefit amounts, Years of Credited Service shall include Hours of Service completed as a Career Agent or General Agent of First Allmerica.

If a Participant terminates employment after having completed at least fifteen Years of Service, he or she may elect to retire on the first day of any month following his or her 55th birthday and prior to his or her Normal Retirement Date. If any such Former Participant elects to retire early, he or she shall be entitled to receive a monthly retirement benefit equal to a percentage of the monthly benefit to which the Participant would have been entitled on his or her Normal Retirement Date. Such percentage shall be obtained by applying the appropriate percentage set forth in the table above to the monthly benefit payable on the Former Participant's Normal Retirement Date.

Notwithstanding the foregoing, if this Plan is a Top Heavy Plan, and if greater than the benefit described above, each Non-Key Employee who elects early retirement shall be entitled to receive a monthly early retirement benefit equal to the appropriate percentage above of his or her Accrued Benefit described in Section 2.01(b).

6.03 Subsidized Early Retirement Benefit. Any eligible Participant who elected an immediate early retirement benefit to commence between March 1, 2003 and May 1, 2004 shall be entitled to an increased retirement benefit, computed as described below, to commence on the date of his or her actual retirement.

- (a) Eligible Participants. Only Participants in Part I of the Plan who are actively employed by First Allmerica on February 1, 2003 (or are then on an Employer-approved paid leave of absence, which paid leave commenced no earlier than December 18, 2002) shall be eligible for the subsidized early retirement benefit described in this Section 6.03. In addition, in order to be eligible for such benefits, a Participant must have retired between March 1, 2003 and May 1, 2004 and met the following requirements:
 - (i) The Participant must be eligible for a "Special Grandfathered Benefit" (as described in Section 2.20(b) of Part I of the Plan) on the date of his or her early retirement.

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- (ii) The Participant must have been continuously employed as a member of an eligible class of Employees from January 1, 1995 until the date of his or her retirement.
 - (iii) The Participant must not have attained Age 65 on the date of his or her retirement.
 - (iv) The Participant must not be eligible for the Rule of 85 subsidized early retirement benefit (as described in Section 6.02 of Part I of the Plan) on the date of his or her retirement.
 - (v) The Participant's job or position with First Allmerica must have been or will be eliminated by May 1, 2003 as a result of the reorganization of the Allmerica Financial Services Division of First Allmerica.
 - (vi) The Participant must be actively at work on the last business day preceding the date of his or her early retirement or then be on vacation, be on an Employer-approved paid leave of absence or be absent due to sickness or injury.
 - (vii) The Participant must execute an appropriate release satisfactory to First Allmerica releasing the company (and its subsidiaries and affiliates and its and their officers, directors and employees) from all liability arising out of or relating to his or her employment with First Allmerica or with any of its predecessors, subsidiaries or affiliates.
- (b) Qualified Early Retirement Benefit. Those eligible Participants as described in Section (a) who retired between March 1, 2003 and May 1, 2004 shall be entitled to a subsidized early retirement benefit, to be computed as follows:
- (i) Subsidized Plan Early Retirement Benefit. Those eligible Participants electing early retirement under Part I of the Plan shall be entitled to an increased retirement benefit commencing on their date of actual retirement, to be computed as follows:
The Participant's early retirement benefit shall be computed as provided in Section 6.02 of Part I of the Plan, except as provided below:
Any eligible Participant may elect to retire on the first day of any month between March 1, 2003 and May 1, 2004, in which event he or she shall receive, subject to Section 6.07 of Part I of the Plan in the case of a married Participant, a monthly life annuity commencing on the date of his or her early retirement and terminating on the last regular payment date prior to his or her death. An eligible Participant may also choose one of

the distribution options set forth in Section 6.06 of Part I of the Plan, with spousal consent if the Participant is married. In the case of a Participant who chooses a monthly life annuity, such benefit will be equal to the sum of (A) and (B) below:

- (A) A monthly life annuity benefit that is the Actuarial Equivalent (as described in Section 2.02 of Part I of the Plan) of the Participant's Account Balance (as described in Section 4.01 of Part I of the Plan), plus
- (B) A monthly life annuity benefit which is equal to a percentage of the Participant's Special Grandfathered Benefit, accrued to the date of actual retirement, based on the Participant's Age, Average Monthly Compensation and Credited Service (such Average Monthly Compensation and Credited Service being calculated in accordance with the provisions of Part I of the Plan in effect on December 31, 1994), each determined as of the date of the Participant's early retirement. Such percentage shall be equal to the appropriate percentage determined from the Schedule below of the Special Grandfathered Benefit that would have been payable had the Participant's date of initial eligibility for the Rule of 85 subsidized early retirement benefit (as described in Section 6.02 of Part I of the Plan) been his or her Normal Retirement Date, based on the assumption that his or her continuous employment had continued until such date, but with the actual benefit being based on the Participant's Special Grandfathered Benefit actually accrued as of the date of early retirement.

Retirement Age*	Percentage of Special Monthly Grand-Fathered Benefit**
55	1.0000
54	0.9333
53	0.8667
52	0.8000
51	0.7333
50	0.6667
49	0.6333
48	0.6000
47	0.5667
46	0.5333
45	0.5000

* This Schedule assumes the Participant would have been eligible for the Rule of 85 subsidized early retirement benefit at Age 55. If a Participant would have been eligible for the Rule of 85 at a date later than Age 55, the

appropriate percentage shall be determined by the Plan actuary using the same assumptions used in constructing the above Schedule.

- ** If a benefit commences in a month other than the month in which the Participant attains the specified Age, the percentage shall be determined by straight line interpretation.

Example. Assume an eligible Participant will attain Age 52 on January 1, 2004 and will have completed 32 Years of Credited Service on such date. Assume further that as of such date the Participant has accrued a Special Grandfathered Benefit, payable as a single life annuity, of \$1,000 per month. Thus, the Participant will initially be eligible for the Rule of 85 subsidized early retirement benefit on January 1, 2007, the date the Participant will attain Age 55. Under the terms of Section 6.03, the Participant may elect to retire on January 1, 2004 and begin to receive an immediate early retirement benefit. If a single life annuity benefit is chosen, such life annuity benefit will be equal to \$800 per month ($\$1,000 \times 0.8000 = \800).

- (ii) Cost-of-Living ("COL") Adjustments. Notwithstanding anything in Section 6.08 of Part I of the Plan to the contrary, Participants (and the Beneficiaries of Participants) who elect to retire pursuant to this Section 6.03 shall be eligible to receive COL benefits, subject to the other rules and requirements set forth in Section 6.08 of Part I of the Plan. Notwithstanding anything in Section 6.08 of Part I of the Plan to the contrary, the early retirement monthly annuity benefits described in this Section 6.03 shall be a part of a Participant's basic plan benefit and shall be included in determining any COL adjustment to which the Participant may become entitled pursuant to Section 6.08 of Part I of the Plan.

6.04 Late Retirement Benefit. If a Participant shall continue in active service beyond his or her Normal Retirement Date, he or she shall continue to participate under Part I of the Plan and Trust. For Employees in ERISA Section 203(a)(3)(B) service (as described in Subsection 6.09(a) of Part I of the Plan), who continue in active employment beyond their Normal Retirement Date, retirement benefits shall be suspended, as provided in Section 6.09 of Part I of the Plan. Except as provided in Section 6.07 of Part I of the Plan in the case of a married Participant, the monthly retirement benefit payable to a Participant retiring on a late retirement date shall be a monthly life annuity commencing on the date of his or her late retirement and terminating on the last regular payment date prior to his or her death. Each late retiree's monthly life annuity will be equal to the late retiree's Accrued Benefit; provided that the portion of the Accrued Benefit attributable to the Participant's Grandfathered Benefit, if any, shall equal the Participant's Basic Grandfathered Benefit, if any, or the Participant's Special Grandfathered Benefit" if any.

Notwithstanding the foregoing, if this Plan is a Top Heavy Plan, if greater than the benefit described above, each Non-Key Employee who elects late retirement shall be entitled to receive a monthly late retirement benefit equal to his or her Accrued Benefit described in Section 2.01(b).

Notwithstanding the above, monthly annuity benefits shall commence no later than a Participant's required beginning date (as defined in Article III of Part III of the Plan). If a Participant has not retired by his or her required beginning date, monthly retirement benefits shall commence on such date and shall be computed as described in the preceding paragraph, with benefits based on the assumption that the Participant's required beginning date was the date of late retirement.

Notwithstanding the foregoing, if late retirement benefits commence after Age 70 $\frac{1}{2}$, to the extent required under Code Section 401(a)(9)(C) and regulations thereunder, a Participant's Accrued Benefit shall be actuarially increased to take into account the period after Age 70 $\frac{1}{2}$ in which the Participant was not receiving any benefits under the Plan, including any period during which the Employee is in Section 203(a)(3)(B) service, as described in Subsection 6.09(a) of Part I of the Plan.

- 6.05 Disability Benefit. Notwithstanding anything in Part I of the Plan to the contrary, if a Participant becomes Totally Disabled while employed by the Employer as an active Participant in Part I of the Plan, such Participant shall have a 100% vested and nonforfeitable right to his or her Accrued Benefit, regardless of his or her length of service.

In addition, if a Participant in Part I of the Plan who is eligible for a Special Grandfathered Benefit was Totally Disabled on December 31, 1994 and before January 1, 2005, becomes Totally Disabled while employed by the Employer as an active Participant in Part I of the Plan, it shall be assumed for purposes of this Part I of the Plan that his or her employment continues from the date of the commencement of his or her total disability to the earliest of his or her Normal Retirement Date, death, termination of employment or date that he or she is no longer Totally Disabled. Prior to January 1, 2005 and while an eligible Employee is Totally Disabled, it shall be assumed for purposes of calculating the Participant's Special Grandfathered Benefit that the Employee continues to earn monthly one-twelfth of the Compensation paid to the Participant during the 12 complete months prior to the month in which he or she ceased active service because of his or her having become Totally Disabled.

For purposes of Part I of the Plan “ **Totally Disabled** ” means the inability to perform the duties of any occupation for which the Employee is or becomes reasonably fitted by education, training or experience; provided, however, in the case of an Employee receiving disability benefits under a long term disability plan sponsored by the Employer, until benefits have been paid under such policy for 24 months, such Employee will be considered Totally Disabled if he or she is unable to perform the duties of his or her occupation and is not working at any other occupation.

6.06 Distribution of Benefits. The Plan Administrator shall direct the Trustee (or Insurer, if applicable) to commence payment of benefits provided under this Article VI of Part I of the Plan (or provided to a Former Participant pursuant to Article IX of Part I of the Plan). Plan benefits will be paid only on death, termination of service, Plan termination or retirement.

Except as otherwise provided in Section 6.07 of Part I of the Plan, the requirements of this Section shall apply to any distribution of a Participant's interest and will take precedence over any inconsistent provisions of this Part I of the Plan.

All distributions required under the Plan shall be determined and made in accordance with the Regulations under Code Section 401(a)(9), including, to the extent applicable, the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed Regulations.

Except as provided below and in Section 6.07, a Participant's retirement benefit shall be payable as a life annuity for the life of the Participant with no further benefits payable after the last regular payment date prior to his or her death.

At any time prior to actual retirement, a Participant, with spousal consent if the Participant is married, may elect to receive his or her retirement benefit under one or more of the following settlement options; provided, however, that a Participant may not elect to have the balance of his or her Account, described in Section 4.01, distributed under more than one annuity option, or his or her Grandfathered Benefit distributed under more than one annuity option.

- (i) An annuity for the joint lives of the Participant and his or her spouse with 50% or $66 \frac{2}{3}$ % (whichever is specified when this option is elected) of such amount payable as an annuity for life to the survivor. No further benefits are payable after the death of both the Participant and his or her spouse.
- (ii) An annuity for the life of the Participant and upon his or her death 100%, $66 \frac{2}{3}$ %, or 50% (whichever is specified when this option is elected) of the annuity amount will be continued to his or her spouse as his or her contingent annuitant. No further annuity benefits are payable after the death of both the Participant and his or her spouse.
- (iii) An annuity for the life of the Participant with guaranteed installment payments for a period certain not longer than the life expectancy of the Participant.
- (iv) An annuity for the life of the Participant with guaranteed installment payments for a period certain not longer than the life expectancy of the Participant and his or her spouse.
- (v) Notwithstanding anything in Part I of the Plan to the contrary, a single lump sum payment in an amount equal to the Participant's vested Account Balance on the Determination Date: provided, however, that except as provided in (vi) below, this form of payment shall not be available with respect to the portion of the Participant's vested Accrued Benefit attributable to the

Participant's Grandfathered Benefit, if any. In the event a Participant elects to have his or her vested Account Balance on the Determination Date payable in a lump sum, the portion of his or her Accrued Benefit attributable to his or her Grandfathered Benefit, if any, shall be paid in accordance with the otherwise applicable provisions of this Article VI of Part I of the Plan.

- (vi) If the present value of a Participant's vested Grandfathered Benefit, if any, does not exceed \$5,000 (\$3,500 for Plan Years beginning prior to January 1, 1998), a single sum payment in an amount equal to such present value. If the present value of a Participant's vested Grandfathered Benefit exceeds \$5,000 (\$3,500 for Plan Years beginning prior to January 1, 1998), only annuity options (i) through (iv) above shall be available with respect to such vested Grandfathered Benefit.

All optional forms of benefits shall be the Actuarial Equivalent (as of the date selected) of the normal retirement benefit described in Section 6.01 of Part I of the Plan or 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans), if applicable. Any spousal consent shall satisfy the requirements of Section 6.07.

Unless the Participant elects otherwise, distribution of benefits will begin no later than the 60th day after the later of the close of the Plan Year in which:

- (i) the Participant attains Normal Retirement Age; or
- (ii) the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant and spouse (or where either the Participant or the spouse has died, the survivor) to consent to a distribution when a benefit is "immediately distributable" (as described below) shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section 6.06 of Part I of the Plan (and provisions of Article III of Part III of the Plan). In no event will benefits begin to be distributed prior to the later of Age 62 or Normal Retirement Age without the consent of the Participant. The consent of the Participant's spouse will also be required for any such distribution unless the benefit is paid in the form of a Qualified Joint and Survivor Annuity. Any spousal consent shall satisfy the requirements of Section 6.07, and no involuntary cash-outs shall be made in any amount on or after March 28, 2005.

If the Accrued Benefit is immediately distributable, the Participant and the Participant's spouse (or where either the Participant or the spouse has died, the survivor) must consent to any distribution of such Accrued Benefit. The consent of the Participant and the Participant's spouse shall be obtained in writing within the 90-day period (180-day period for Plan Years beginning January 1, 2007 and thereafter) ending on the annuity starting date. The "**annuity starting date**" is the first day of the first period for which an amount is paid as an annuity or any other form. The Plan Administrator shall notify the Participant and the Participant's spouse of the right to defer any distribution until the Participant's Accrued Benefit is no longer immediately distributable. Such notification

shall include a general description of the material features, and an explanation of the relative values of, the optional forms of benefit available under the Plan in a manner that would satisfy the notice requirements of Section 417(a)(3) of the Code, and shall be provided no less than 30 days and no more than 90 days (180 days for Plan Years beginning January 1, 2007 and thereafter) prior to the annuity starting date.

Notwithstanding the foregoing, only the Participant need consent to the commencement of a distribution in the form of a Qualified Joint and Survivor Annuity while the Accrued Benefit is immediately distributable. Neither the consent of the Participant nor the Participant's spouse shall be required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code.

An Accrued Benefit is immediately distributable if any part of the Accrued Benefit could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or Age 62.

Notwithstanding the above the entire interest of a Participant or a Beneficiary must be distributed in accordance with the minimum required distribution rules set forth in Article III of Part III of the Plan.

6.07 Qualified Joint and Survivor Annuity for Married Participants.

- (a) General Rules. Notwithstanding anything in this Article to the contrary, unless a married Participant's Accrued Benefit has been paid in a lump sum pursuant to Section 6.06 above, such Participant's retirement benefit will be payable to the Participant and his or her spouse in the form of a Qualified Joint and Survivor Annuity, with the survivor to receive 100% of the benefit which had been payable during their joint lives, unless an optional form of benefit is selected pursuant to a qualified election within the 90-day period (180-day period for Plan Years beginning January 1, 2007 and thereafter) ending on the annuity starting date. In the case of an unmarried Participant, unless the Participant elects an optional form of benefit the Participant's retirement benefit will be paid in the form of a no-death benefit life annuity.
- (b) Definitions.
 - (i) Qualified election: A waiver of a Qualified Joint and Survivor Annuity. Any waiver of a Qualified Joint and Survivor Annuity shall not be effective unless: (A) the Participant's spouse consents in writing to the election; (B) the election designates a specific Beneficiary, including any class of Beneficiaries or any contingent Beneficiaries, which may not be changed without spousal consent (or the spouse expressly permits designations by the Participant without any further spousal consent); (C) the spouse's consent acknowledges the effect of the election; and (D) the spouse's consent is witnessed by a Plan representative or notary public. Additionally, a Participant's waiver of the Qualified Joint and Survivor Annuity will not be effective unless the election designates a form of

benefit payment which may not be changed without spousal consent (or the spouse expressly permits designations by the Participant without any further spousal consent). If it is established to the satisfaction of a Plan representative that there is no spouse or that the spouse cannot be located, a waiver will be deemed a qualified election.

Any consent by a spouse obtained under this Subsection (or establishment that the consent of a spouse may not be obtained) shall be effective only with respect to such spouse. A consent that permits designations by the Participant without any requirement of further consent by such spouse must acknowledge that the spouse has the right to limit consent to a specific Beneficiary, and a specific form of benefit where applicable, and that the spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Participant without the consent of the spouse at any time before the commencement of benefits. The number of revocations shall not be limited. No consent obtained under this provision shall be valid unless the Participant has received notice as provided in Subsection (c) below.

- (ii) Spouse (surviving spouse): the opposite-gender person, if any, to whom the Participant is lawfully married at the date of his death or at his annuity starting date, whichever is earlier, provided that a former spouse will be treated as the spouse or surviving spouse to the extent provided under a Qualified Domestic Relations Order.
- (iii) Annuity starting date: The first day of the first period for which an amount is paid as an annuity or under any other form.

(c) Notice Requirement.

- (i) In the case of a Qualified Joint and Survivor Annuity as described in Subsection (a), the Plan Administrator shall provide each Participant no less than 30 days and no more than 90 days (180 days for Plan Years beginning January 1, 2007 and thereafter) prior to the annuity starting date a written explanation of: (A) the terms and conditions of a Qualified Joint and Survivor Annuity; (B) the Participant's right to make and the effect of an election to waive the Qualified Joint and Survivor Annuity form of benefit; (C) the rights of a Participant's spouse; (D) the right to make, and the effect of, a revocation of a previous election to waive the Qualified Joint and Survivor Annuity; and (E) the relative values of the various optional forms of benefit under the Plan. Notices given to Participants pursuant to Code Section 411(a)(11) in Plan Years beginning after December 31, 2006 shall include a description of how much larger benefits will be if the commencement of distributions is deferred.
- (ii) A Participant may commence receiving a distribution in a form other than a Qualified Joint and Survivor Annuity less than 30 days after receipt of

the written explanation described in the preceding paragraph provided: (A) the Participant has been provided with information that clearly indicates that the Participant has at least 30 days to consider whether to waive the Qualified Joint and Survivor Annuity and elect (with spousal consent) a form of distribution other than a Qualified Joint and Survivor Annuity; (B) the Participant is permitted to revoke any affirmative distribution election at least until the Distribution Commencement Date or, if later, at any time prior to the expiration of the 7-day period that begins the day after the explanation of the Qualified Joint and Survivor Annuity is provided to the Participant; and (C) the Distribution Commencement Date is after the date the written explanation was provided to the Participant. For distributions on or after December 31, 1996, the Distribution Commencement Date may be a date prior to the date the written explanation is provided to the Participant if the distribution does not commence until at least 30 days after such written explanation is provided, subject to the waiver of the 30-day period. For the purposes of this paragraph, the “ **Distribution Commencement Date** ” is the date a Participant commences distributions from the Plan. If a Participant commences distribution with respect to a portion of his/her Account Balance, a separate Distribution Commencement Date applies to any subsequent distribution. If distribution is made in the form of an annuity, the Distribution Commencement Date is the first day of the first period for which annuity payments are made.

- (d) Applicability. The provisions of this Section 6.07 shall apply to any Participant who is credited with at least one Hour of Service with the Employer on or after January 1, 1976. In addition, any living Participant or Former Participant not receiving benefits under Part I of the Plan on August 23, 1984 who would otherwise not receive the benefits prescribed by this Section 6.07 shall be given the opportunity to elect to have the provisions of this Section apply provided such Participant or Former Participant was credited with at least one Hour of Service under this Part I of the Plan or a predecessor plan on or after September 2, 1974.

The opportunity to elect a Qualified Joint and Survivor retirement option must be afforded to the appropriate Participants or Former Participants during the period commencing on August 23, 1984 and ending on the dates benefits would otherwise commence to such person.

- 6.08 Supplementary Pension Benefits. Effective July 1, 1986, and on each July 1 thereafter, the amount of monthly retirement benefits payable to eligible retirees (as described below) or their Beneficiaries shall be increased by a percentage determined in accordance with the following formula:

$$\text{Percentage Increase} = .8 (M - .07) \times 100$$

For Plan Years beginning after December 31, 2008, for purposes of the above formula, “ **M** ” equals the annual coupon return on December 31, 2009 and on each December 31 thereafter of the Barclays Capital U.S. Government/Credit 5-10 Year Index, or its successor.

For Plan Years beginning after December 31, 1997 and prior to January 1, 2009, for purposes of the above formula, "M" equaled the earnings rate for the prior Plan Year on assets representing retired life reserves for retirees of First Allmerica, Citizens and Hanover. Additionally, retired life reserve assets of the Agents' Pension Plan (Part II of the Plan) and retired life reserve assets attributable to retirees of General Agents of First Allmerica and retirees of Beacon Insurance Company of America (" **Beacon** "), formerly an affiliate of Hanover, shall be aggregated and combined with the retired life reserve assets of this Part I of the Plan.

For Plan Years beginning prior to January 1, 1998, for purposes of the above formula, "M" equaled the earnings rate for the prior Plan Year on assets representing retired life reserves for retirees of each Employer. The formula shall be applied separately and retired life reserves shall be determined separately for each Employer; provided, however, (i) that for retirees of First Allmerica and its General Agents who have adopted this Part I of the Plan, retired life reserve assets shall be aggregated and combined with the retired life reserve assets of The First Allmerica Agents' Pension Plan (Part II of the Plan) and (ii) for Plan Years beginning after December 31, 1992, the retired life reserve assets of Beacon shall be combined with the retired life reserve assets of Hanover.

For the Plan Years for which "M" depended on the returns of designated retired life reserve assets, the earnings rate on retired life reserve assets was to be determined by an actuary, using the "investment year block" method of crediting interest that First Allmerica used to credit interest on its Experience Rated group annuity contracts that were in force on an active basis. The resulting earnings rate(s) should neither be associated with nor construed as the investment yield (all or in part) of the pension fund.

For each Plan Year for which "M" depended on the returns of designated retired life reserve assets, the retired life reserve assets for newly qualified retirees to be added to the total retired life assets outstanding was to be determined using a 7% interest rate and the 1971 GAM mortality table.

The determination of "M" and of the overall earning rate(s) shall be final and conclusively binding for all persons.

The effective date for the payment of supplemental pension benefits paid as a result of this Section shall be each July 1, commencing with July 1, 1986. Those eligible to receive supplemental pension benefits as a result of this Section shall be those retirees of First Allmerica, Citizens, Hanover and General Agents of First Allmerica (and their Beneficiaries) who were receiving basic retirement benefits under Part I of the Plan on the July 1 increase effective date, had been retired for at least 18 months on such increase effective date, and:

- (i) had elected an immediate early retirement benefit pursuant to Section 6.02 (or its successor, if any)

(ii) had terminated employment after having met the eligibility requirements for early retirement specified in Section 6.02 (or its successor, if any) and elected to defer receipt of retirement benefits: or

(iii) had retired on or after their Normal Retirement Age after having completed at least 15 years of Credited Service.

The Beneficiaries of any retiree meeting the above requirements shall be entitled to receive a supplemental pension benefit under this Section if the Beneficiaries were receiving survivor benefits under Part I of the Plan on the July 1 increase effective date.

A supplemental pension benefit determined under this Section shall be added to and become a part of the recipient's basic benefit under Part I of the Plan and shall be payable during such period and under such option as the basic benefit under Part I of the Plan is being paid.

6.09 Suspension of Retirement Benefits.

(a) Suspension of Benefits. Except as provided below, Normal, Early or Late Retirement Benefits will be suspended for each calendar month during which an Employee or Eligible Re-employed Pensioner (a "**Pensioner**") completes more than 80 Hours of Service as described in Subsection 2.23(a) and (b) with an Employer in a job or position in which the Employee or Pensioner is eligible to participate in Part I of the Plan (hereinafter Section 203(a)(3)(B) service).

For purposes of this Section 6.09 of Part I of the Plan, an "**Eligible Re-employed Pensioner**" means (i) a retiree of First Allmerica or a retiree of a General Agent of First Allmerica who is re-employed by First Allmerica, Citizens or Hanover on or after January 1, 1988 or (ii) a retiree of Citizens or Hanover who is re-employed by First Allmerica, Citizens or Hanover on or after January 1, 1993 and (iii) for Plan Years beginning after December 31, 1988, who had not attained Age 70; provided, that (i) benefits will not be suspended during the calendar month a Pensioner first retires from the Employer, regardless of the number of Hours of Service completed by the Pensioner during such month, and (ii) this Section shall not apply to the Top-Heavy Plan minimum benefits to which any Non-Key Employee may be entitled under the top-heavy rules of Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans).

(b) Amount Suspended. The benefit suspended shall be equal to the portion of the Employee's or Pensioner's monthly annuity benefit derived from Employer contributions, including any temporary early retirement supplement.

(c) Resumption of payment. If retirement benefit payments have been suspended, payments shall resume no later than the first day of the third calendar month after the calendar month in which the Employee or Pensioner ceases to be employed in ERISA Section 203(a)(3)(B) service. The initial payment upon resumption shall include the payment scheduled to occur in the calendar month when payments resume and any amounts withheld during the period between the cessation of ERISA Section 203(a)(3)(B) service and the resumption of payments.

Provided, that there shall be an offset from any payments to be resumed for the amount of any retirement benefits that had been paid but which should have been withheld under the suspension rules of this Section 6.09. In no event may the offset exceed in any one month more than 25 percent of the amount that would otherwise be payable under Part I of the Plan (excluding the first payment made after resumption which may be offset without limitation). The amount to be resumed shall be the greater of the benefit amount suspended or a benefit computed as described in Sections 6.01 or 6.02 or 6.04, as appropriate, but based on the pensioner's Age (and any joint or contingent annuitant's Age), Credited Service and Compensation on the date of resumption.

- (d) Notification. Notwithstanding anything in Part I of the Plan to the contrary, effective January 1, 2007, no retirement benefits (Early, Normal or Late) shall be withheld by the Plan unless the Employee or Pensioner is notified by personal delivery or first class mail during the first calendar month in which the Plan withholds payments that his or her benefits are suspended.
- (e) Such notifications shall contain a description of the specific reasons why benefit payments are being suspended, a description of the plan provisions relating to the suspension of payments, a copy of such provisions, and a statement to the effect that applicable Department of Labor regulations may be found in Section 2530.203-3 of the Labor Regulations.

In addition, the notice shall inform the Employee or Pensioner of the Plan's procedures for affording a review of the suspension of benefits. Requests for such reviews may be considered in accordance with the claims procedure adopted by the Plan, as described in Article VIII of Part III of the Plan.

6.10 Rollovers to Other Qualified Plans.

- (a) Notwithstanding any provision of Part I of the Plan to the contrary that would otherwise limit a distributee's election under this Article or under Articles VII and VIII of Part III of the Plan, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.
- (b) Definitions.
 - (i) Eligible rollover distribution: An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies)

of the distributee and the distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and any other distribution(s) that is reasonably expected to total less than \$200 during a year. A portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be transferred only to (i) an individual retirement account or annuity described in Section 408(a) or (b) of the Internal Revenue Code; (ii) for taxable years beginning after December 31, 2001 and before January 1, 2007, to a qualified trust which is part of a defined contribution plan that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible; or (iii) for taxable years beginning after December 31, 2006, to a qualified trust or to an annuity contract described in Section 403(b) of the Internal Revenue Code, if such trust or contract provides for separate accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

- (ii) **Eligible retirement plan:** An eligible retirement plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, a Roth IRA as pursuant to in Section 408A(e) of the Code, an annuity contract described in Section 403(b) of the Code, an annuity plan described in Section 403(a) of the Code, a qualified plan described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution or an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.
- (iii) **Distributee:** A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's surviving spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.
- (iv) **Direct rollover:** A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee.

- (c) For distributions after June 9, 2009, a non-spouse Beneficiary who is a “designated beneficiary” under Code Section 401(a)(9)(E) and the regulations thereunder, by a direct trustee-to-trustee transfer (“**direct rollover**”), may roll over all or any portion of his or her distribution to an individual retirement account the Beneficiary establishes for purposes of receiving the distribution. In order to do a direct rollover of the distribution, the distribution otherwise must satisfy the definition of an eligible rollover distribution.

Although a non-spouse Beneficiary may roll over directly a distribution as provided above, any distribution made prior to January 1, 2010 is not subject to the direct rollover requirements of Code Section 401(a)(31) (including Code Section 401(a)(31)(B)), the notice requirements of Code Section 402(f) or the mandatory withholding requirements of Code Section 3405(c)). If a non-spouse Beneficiary receives a distribution from the Plan, the distribution is not eligible for a “60-day” rollover.

If the Participant’s named Beneficiary is a trust, the Plan may make a direct rollover to an individual retirement account on behalf of the trust, provided the trust satisfies the requirements to be a “designated beneficiary” within the meaning of Code Section 401(a)(9)(E).

A non-spouse Beneficiary may not roll over an amount which is a required minimum distribution, as determined under applicable Treasury Regulations and other Internal Revenue Service guidance. If the Participant dies before his or her required beginning date and the non-spouse Beneficiary rolls over to an IRA the maximum amount eligible for rollover, the Beneficiary may elect to use either the 5-year rule or the life expectancy rule, pursuant to Treasury Regulation Section 1.401(a)(9)-3, A-4(c), in determining the required minimum distributions from the IRA that receives the non-spouse Beneficiary’s distribution.

ARTICLE VII

DEATH BENEFITS

7.01 Pre-Retirement Death Benefits

- (a) **General Rules.** The provisions of this Section shall apply to any Participant or Former Participant provided that such Participant or Former Participant completes at least one Hour of Service on or after January 1, 1995.
- (i) If a married Participant who has satisfied the eligibility requirements for an early retirement benefit or normal retirement benefit dies (regardless of whether the Participant is still working for the Employer) before beginning to receive such benefits, then the Participant’s surviving spouse will receive a monthly retirement benefit equal to the sum of:
- (A) the portion of the Accrued Benefit attributable to the Participant’s Grandfathered Benefit, if any, that would have been payable if the Participant had retired on the day before his or her death after having elected an immediate Qualified Joint and Survivor Annuity Option with a 50% continuation of monthly benefits to be payable to the survivor; and

(B) the Actuarial Equivalent annuity (payable on the Participant's death) of the portion of the vested Accrued Benefit attributable to the Participant's Projected Account Balance.

The amount of such benefit shall be payable monthly for the life of the spouse, with the first payment payable as of the date of the Participant's death, unless the spouse requests a later commencement date (consistent with the provisions of the Part I of the Plan).

(ii) If a fully or partially vested married Participant dies on or before attaining eligibility for early retirement, the Participant's surviving spouse will receive a monthly retirement benefit equal to the sum of (A) and (B) below.

(A) The portion of the Accrued Benefit attributable to the Participant's Grandfathered Benefit, if any, which would be payable if the Participant had:

- (1) separated from service on the date of death;
- (2) survived to Age 55 (if younger than Age 55 on the date of death);
- (3) retired at Age 55 (or retired on the day before his or her death, if older than Age 55 at the date of death) after having elected an immediate Qualified Joint and Survivor Annuity Option with a 50% continuation of monthly benefits to be payable to the survivor; and
- (4) died on the day after retirement.

(B) the Actuarial Equivalent annuity (payable when the Participant would have attained age 55) of the portion of the vested Accrued Benefit attributable to the Participant's Projected Account Balance.

A surviving spouse entitled to benefits under this paragraph (ii) will begin to receive payments on the first day of the month following the date the Participant would have attained Age 55 (or on the first day of the month following the date of death, if the Participant was Age 55 or older on the date of his or her death), unless the spouse requests an earlier or later commencement date (consistent with the provisions of Part I of the Plan).

For purposes of this paragraph (ii), the “ **earliest retirement age** ” is the earliest date on which, under Part I of the Plan, the Participant could elect to receive retirement benefits attributable to his or her Grandfathered Benefit.

The surviving spouse of a Participant who is entitled to receive a pre-retirement death benefit as described in paragraph (a)(i) or (a)(ii) above, may, in lieu of receiving such benefit, elect to receive the portion of such death benefit which is the Participant’s Account Balance on the Determination Date in a single sum amount. Such single sum benefit shall be distributed as soon as practicable after the date of the Participant’s death (or at any later date, as elected by the surviving spouse, consistent with the provisions of Part I of the Plan) and shall be in an amount equal to the Account Balance as of the Determination Date. Alternatively, the surviving spouse may elect to have the Actuarial Equivalent of the pre-retirement death benefit (or the Actuarial Equivalent of the Grandfathered Benefit, if the Account Balance is to be paid as a single sum) payable commencing as of the date of the Participant’s death (or at any later date as elected by the surviving spouse, consistent with the provisions of Part I of the Plan) in any of the other optional forms of payment available under Section 6.06 of Part I of the Plan. In the event that a surviving spouse elects to have the portion of his or her benefit attributable to the Participant’s Account Balance payable in a lump sum in accordance with this paragraph, the balance of the death benefit otherwise payable under Part I of the Plan in accordance with paragraph (a)(i) or (a)(ii) above, shall consist solely of that portion of such death benefit that is attributable to the Participant’s Grandfathered Benefit, if any.

Any surviving spouse described in the preceding paragraph who elects to receive the Participant’s Account Balance in a single sum payment may also elect to receive the present value of the Participant’s Grandfathered Benefit, if any, in a single sum amount; provided, however, that this option with respect to a Grandfathered Benefit shall only be available to a surviving spouse if the present value of the Grandfathered Benefit does not exceed \$5,000 (\$3,500 for Plan Years beginning prior to January 1, 1998). Any such single sum benefit shall be distributed as soon as practicable after the date of the Participant’s death.

If a Participant, on or after the earlier of the first day of the Plan Year in which he or she attains age 35 or the date of his or her separation from service and prior to his or her death, elects to waive the pre-retirement death benefit which is attributable to the Participant’s Projected Account Balance and the participant’s spouse consents to the waiver in accordance with Section 6.07(b)(i) (as if the pre-retirement death benefit waiver was a waiver of a Qualified Joint and Survivor Annuity), the Participant may designate a Beneficiary other than his or her spouse to receive the portion of the Participant’s pre-retirement death benefit which is attributable to the Participant’s Projected Account Balance.

Any such designation shall be in writing on a form provided by or satisfactory to the Plan Administrator, and such designation may include primary and contingent Beneficiaries. Such benefit shall be paid in the form of a lump sum as soon as practicable after the death of the Participant and shall equal the Participant's Account Balance at the Determination Date. In the event that a portion of a Participant's benefit under the Plan is payable to a non-spouse Beneficiary in accordance with this paragraph, the remaining portion of the death benefit attributable to such Participant shall be paid to the Participant's surviving spouse in accordance with paragraphs (a)(i) and (a)(ii) above, as applicable. Before a Participant is permitted to waive the pre-retirement death benefit which is attributable to the Participant's Account Balance, the Plan Administrator shall provide each Participant a written explanation with respect to the pre-retirement death benefit comparable to that described in Section 6.07(c)(i).

- (b) Unmarried Participants. If any unmarried Participant dies in any of the circumstances described in paragraphs (a)(i) or (a)(ii) above with respect to married Participants, the Beneficiary (designated in accordance with the rules described in (a) above) of such Participant shall receive a death benefit in a single sum as soon as practicable after the date of the Participant's death. The amount of such death benefit shall be equal to the Participant's Account Balance at the Determination Date. There shall be no death benefit payable with respect to the Grandfathered Benefits of any such Participant.

7.02 Death Benefits for Certain Dependent Spouses (Applicable only to certain Employees entitled to Special Grandfathered Benefits).

- (a) Eligibility. The spouse of a deceased Employee (including the spouse of any such deceased Employee who had become and continuously remained Totally Disabled [as described in Section 6.05] until death) shall be entitled to a monthly income as set forth in Subsection (b) hereof, provided:
- (i) The spouse was married to, living with and was a dependent of the Employee for at least the three year period immediately preceding the death of the Employee. For purposes of this Section 7.02 dependency shall be assumed only if the average earned income of the spouse during such three year period was less than the average earned income of the Employee during the same three year period;
 - (ii) The Employee had attained Age 50 prior to the date of death;
 - (iii) The Employee was an employee of First Allmerica or a General Agent of First Allmerica prior to January 1, 1976 and had not thereafter retired or attained Age 65 and since December 31, 1975 was continuously employed with the Employer until the date of his or her death;

(iv) The Employee was eligible to accrue additional Special Grandfathered Benefits (as described in Subsection 2.20(b)) on December 31, 2004 (or on the date of his or her death, if earlier); and

(v) The Employee was not a Highly Compensated Employee on the date of his or her death.

Whether or not a spouse qualifies as a “dependent spouse” shall be determined by the Plan Administrator, whose determination shall be conclusive and binding on all persons. If an Employee or spouse is totally disabled (as described in Section 6.05), the “average earned income” of the disabled person shall be determined as of the date the Total Disability commenced. The term “**earned income**” for a year means a person’s Compensation as defined in Section 2.08(b) paid during the year plus the sum of (i) any salary reduction contributions allocated during the year on the person’s behalf to any tax sheltered annuity qualified under Section 403(b) of the Code or to any defined contribution plan qualified under Section 401(k) of the Code maintained by the person’s employer and (ii) the amount of any salary reduction contributions contributed on the person’s behalf during the year to any Code Section 125 plan maintained by the person’s employer.

(b) Amount of Benefit. The benefit to spouses qualifying under Subsection (a) shall be a monthly income commencing as of the date of the death of the Employee, in an amount equal to (i) less (ii) below:

(i) the applicable percentage below of the Special Grandfathered Benefit which the Employee would have received at his or her Normal Retirement Date had the Employee lived and remained a Participant in Part I of the Plan until such date and had the Participant continued to earn monthly one-twelfth of the Compensation paid to the Participant during the 12 complete months prior to the month in which occurred the date of his or her death.

<u>Number of Completed Years Over Employee’s Age 49 at Date of Employee’s Death</u>	<u>Percentage of Grandfathered Retirement Benefit*</u>
1	10%
2	20%
3	30%
4	40%
5 and over	50%; less

* If death occurs in a month other than the month in which the Participant attains the specified Age, the percentage shall be determined based on straight line interpolation.

- (ii) the amount of any benefits provided to the surviving spouse pursuant to Section 7.01 attributable to the Employee's Special Grandfathered Benefit.

ARTICLE VIII

BENEFITS UPON TERMINATION FROM SERVICE

8.01 In General. In the event that a Participant shall terminate from service with the Employer for any reason other than death, Normal, Early or Late Retirement, the interests and rights of such Participant shall be limited to those contained in this Article.

8.02 Termination Benefits. Upon any separation from service described in Section 8.01, a Participant shall be entitled to a benefit under Part I of the Plan, payable at his or her Normal Retirement Date, equal to the vesting percentage specified below of the Participant's Accrued Benefit. The automatic form of benefit shall be a Qualified Joint and Survivor Annuity, with the survivor to receive 100% of the benefit which had been payable during their joint lives, if the Participant is married at the time of commencement of benefits, or a single life annuity if the Participant is not married at the time of commencement. With spousal consent, the Participant may elect to have his or her benefit paid in any of the optional forms described in Section 6.06. The amount of any annuity attributable to a Participant's vested Account Balance shall be the Actuarial Equivalent of such vested Account Balance.

Vesting Percentages

- (a) With respect to the portion of the Accrued Benefit attributable to such Participant's Grandfathered Benefit, if any:

<u>Completed Years of Service</u>	<u>Nonforfeitable Percentage</u>
Less than 5	0
5 or more	100

- (b) With respect to the portion of the Accrued Benefit attributable to such Participant's Projected Account Balance:

<u>Completed Years of Service</u>	<u>Nonforfeitable Percentage</u>
Less than 2	0
2	25
3	50
4	75
5 or more	100

Notwithstanding the above, if the Plan is a Top Heavy Plan, then the Plan shall meet the following vesting requirements for such Plan Year and for all subsequent Plan Years, even if the Plan is not a Top Heavy Plan for such subsequent Plan Years.

<u>Completed Years of Service</u>	<u>Nonforfeitable Percentage</u>
Less than 2	0
2	25
3	50
4	75
5 or more	100

Notwithstanding anything in Part I of the Plan to the contrary, effective on August 17, 2006, for those Participants employed by the Employer on or after such date, such Participants shall be 25% vested in their Account Balance, as defined in Section 4.01, upon completion of two (2) Years of Service and 100% vested in their Accrued Benefit, as described in Section 2.01, upon completion of three (3) Years of Service.

For purposes of this Article, Years of Service means Plan Years during which an Employee was credited with at least 1,000 Hours of Service.

Notwithstanding the foregoing, a Participant who is entitled to a deferred Normal Retirement Benefit may elect to receive his or her vested Account Balance on the Determination Date in a single lump sum. In addition, if a Participant makes an election described in the immediately preceding sentence and if the present value of the portion of the vested Accrued Benefit attributable to such Participant's vested Grandfathered Benefit does not exceed \$3,500 (\$5,000 for Plan Years beginning on and after January 1, 1998), the Participant may elect to receive such portion of his or her vested Accrued Benefit attributable to the Grandfathered Benefit in a lump sum. Any such Participant may elect to receive either such lump sum at any time after separation from service and, in the case of a single lump sum distribution of his or her vested Account Balance, must receive such benefit no later than the time at which benefits attributable to the Participant's Grandfathered Benefit, if any, commences. Any such election shall be subject to spousal consent in the case of a married Participant. Any spousal consent must satisfy the requirement of Section 6.07. In the event a Participant elects to have his or her vested Account Balance paid in a lump sum, the portion of such Participant's vested Accrued Benefit attributable to his or her Grandfathered Benefit, if any, shall be paid in accordance with the otherwise applicable provisions of Section 6.06 (and of Article III of Part III of the Plan).

Notwithstanding anything in Part I of the Plan to the contrary, an actively employed Participant's Accrued Benefit shall become 100% vested and non-forfeitable upon the

earliest of (i) the date of such Participant's death; (ii) the date such a Participant becomes Totally Disabled (within the meaning of Section 6.05 of Part I of the Plan); or (iii) the date such a Participant attains his or her Normal Retirement Age.

Any distributions under this Article shall be subject to the requirements of Sections 6.06 and 6.07, including the requirement that a Participant shall be eligible to receive any form of distribution provided for under Section 6.06 of Part I of the Plan at such time as he or she is eligible to receive his or her vested Account Balance in a lump sum.

- 8.03 Forfeitures. The non-vested portion of a Participant's Accrued Benefit shall be treated as a forfeiture when the Participant or his or her spouse (or surviving spouse) receives a distribution of the present value of his or her vested Accrued Benefit, pursuant to Section 8.02 of Part I of the Plan and the Participant's service attributable to such distribution shall be disregarded as provided for in Section 8.07 of Part I of the Plan. For purposes of this Section, if the present value of a Participant's vested Accrued Benefit is zero, the Participant shall be deemed to have received a distribution of such vested Accrued Benefit.

In the case of a partially vested terminated Participant who does not receive a distribution pursuant to the above paragraph, the value of the nonvested portion of his Accrued Benefit shall be treated as a forfeiture at the end of the Plan Year in which the Participant incurs a One Year Break in Service until the Participant has completed one Year of Service after he has been re-employed.

Forfeitures will be used to reduce (i) Employer contributions for the Plan Year following the Plan Year in which the forfeiture occurs; and or (ii) the Employer's costs under the Plan.

- 8.04 Resumption of Service. A Participant who terminates his or her participation in Part I of the Plan and who subsequently resumes service with the Employer will again become a Participant on the entry date determined in accordance with Section 3.01(b) of Part I of the Plan.
- 8.05 Service with Affiliates. As provided in Section 2.23, in determining a Participant's vesting percentage, Hours of Service completed with an Affiliate or as a Career Agent or General Agent of First Allmerica shall be deemed to be Hours of Service completed with the Employer.
- 8.06 Distribution of Benefits. On the Former Participant's Normal Retirement Date, benefits to which he or she is entitled pursuant to this Article shall be distributed in accordance with Article VI.

If a Former Participant entitled to a deferred benefit pursuant to this Article VIII dies prior to his or her Normal Retirement Date, the death benefit, if any, to which he or she is entitled shall be as is specified in Article VII.

8.07 Cash Out Repayment Option.

- (a) Notwithstanding anything in this Article or in Section 2.01 to the contrary, unless a repayment has been made in accordance with Subsection (b) below, in determining a partially vested Employee's Grandfathered Benefit (or, in the case of a Top Heavy Plan, the minimum benefit for Non-Key Employees described in Subsection 2.01(b)) after a resumption of participation, periods of service with respect to which the Employee received a distribution of the present value of his or her vested Accrued Benefit shall be disregarded.
- (b) In the case of the distribution of the present value of a partially vested Employee's vested Accrued Benefit in accordance with Section 8.02, the Employee's Accrued Benefit described in Subsections 2.01(a) and (b) (including all optional forms of benefits and subsidies relating to such benefits) shall be restored if the Employee repays the amount distributed plus interest, if applicable, compounded annually from the date of distribution at the rate of 5 percent. In determining the amount of any required repayment, interest shall be charged on the portion of any distribution attributable to a Participant's Grandfathered Benefit, if any or, in the case of a Top Heavy Plan, on the portion of any distribution that is a minimum benefit for Non-Key Employees described in Subsection 2.01(b). No interest shall be payable with respect to the portion of a Participant's distribution attributable to his or her Account Balance. Such repayment must be made by the Employee before the earlier of five years after the first date on which the Employee is subsequently reemployed by the Employer, or the date the Employee incurs five consecutive One Year Breaks in Service following the date of distribution.

If an Employee is deemed to receive a distribution pursuant to this Article, and the Employee resumes employment covered under this Plan before the date the Participant incurs 5 consecutive One-Year Breaks in Service, upon the reemployment of such Employee, the Employer-derived Accrued Benefit will be restored to the amount of such Accrued Benefit on the date of the deemed distribution.

8.08 Early Retirement Election . Any Participant who terminates service after having completed at least fifteen Years of Service may elect to retire on the first day of any month following his or her 55th birthday, as described in Section 6.02.

8.09 Amendment to Vesting Schedule . If the Vesting Schedule of the Plan is amended, or the Plan is amended in any way that directly or indirectly affects the computation of a Participant's nonforfeitable percentage, or if the Plan is deemed amended by an automatic change to or from a top-heavy vesting schedule, each Participant with at least 3 Years of Service with the Employer may elect, within a reasonable period after the adoption of the amendment or change, to have their nonforfeitable percentage computed under the Plan without regard to such amendment or change. The period during which the election may be made shall commence with the date the amendment is adopted or deemed to be made and shall end on the latest of:

- (i) 60 days after the amendment is adopted;

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- (ii) 60 days after the amendment becomes effective; or
 - (iii) 60 days after the Participant is issued written notice of the amendment by the Employer or Plan Administrator.

EXHIBIT A – ADJUSTMENT FACTORS FOR OPTIONAL GRANDFATHERED BENEFITS

Factors for ages not illustrated on the following tables will be computed on an actuarial basis consistent with that used to compute the factors shown.

Part I - 51

JOINT AND SURVIVOR OPTION PERCENTAGES

(Applicable only if the Participant's age, nearest birthday, on the date monthly income commences is 65).

Age Nearest Birthday of Joint Annuitant on the Date Monthly Income Commences to the Participant	Percentage of the Adjusted Grandfathered Retirement Annuity Payments which are to be Continued to the Surviving Joint Annuitant		
	<u>100%</u>	<u>66 ² / 3 %</u>	<u>50%</u>
50	80.3%	87.1%	90.9%
51	80.7	87.5	91.3
52	81.1	87.9	91.8
53	81.5	88.4	92.2
54	82.0	88.8	92.7
55	82.4	89.3	93.2
56	82.9	89.8	93.8
57	83.3	90.3	94.3
58	83.8	90.9	94.9
59	84.3	91.4	95.5
60	84.8	92.0	96.1
61	85.3	92.7	96.8
62	85.9	93.3	97.5
63	86.4	94.0	98.3
64	86.9	94.7	99.1
65	87.5	95.4	100.0
66	88.0	96.2	100.0
67	88.6	97.0	101.9
68	89.1	97.9	102.9
69	89.6	98.7	104.0
70	90.2	99.6	105.1

1983 Group Annuity Table with Projection H, with mortality rates based on calendar year of birth of 1930 and interest at the rate of 7% per annum.

Life Ann/Opt.

CONTINGENT ANNUITANT OPTION PERCENTAGES

(Applicable only if the Participant's age, nearest birthday, on the date monthly income commences is 65).

<u>Age Nearest Birthday of Contingent Annuitant on the Date Monthly Income Commences to the Participant</u>	<u>Percentage of the Adjusted Grandfathered Retirement Annuity Payments which are to be Continued to the Surviving Contingent Annuitant</u>		
	<u>100%</u>	<u>66 ² / 3 %</u>	<u>50%</u>
50	80.3%	85.9%	89.0%
51	80.7	86.2	89.3
52	81.1	86.5	89.6
53	81.5	86.9	89.8
54	82.0	87.2	90.1
55	82.4	87.5	90.4
56	82.9	87.9	90.6
57	83.3	88.2	90.9
58	83.8	88.6	91.2
59	84.3	89.0	91.5
60	84.8	89.3	91.8
61	85.3	89.7	92.1
62	85.9	90.1	92.4
63	86.4	90.5	92.7
64	86.9	90.9	93.0
65	87.5	91.3	93.3
66	88.0	91.7	93.6
67	88.6	92.1	93.9
68	89.1	92.5	94.2
69	89.6	92.9	94.5
70	90.2	93.2	94.8

1983 Group Annuity Table with Projection H, with mortality rates based on calendar year of birth of 1930 and interest at the rate of 7% per annum.

Life Ann/Opt.

ANNUITY OPTION ADJUSTMENT PERCENTAGES

Percentages to be applied to the monthly benefit which would be payable to the Participant on his or her Retirement Date if no Optional Form of Annuity were in effect to determine the monthly income benefit commencing on the Participant's Retirement Date if one of the following options is in effect.

Age Nearest Birthday on the Date Monthly Income Commences Benefit	Annuity Option for Grandfathered			
	<u>5C&C</u>	<u>10C&C</u>	<u>15C&C</u>	<u>20C&C</u>
50	99.8%	99.2%	98.3%	97.2%
51	99.8	99.1	98.1	96.9
52	99.7	99.0	97.9	96.6
53	99.7	98.9	97.7	96.3
54	99.7	98.8	97.5	96.0
55	99.6	98.6	97.3	95.6
56	99.6	98.5	97.0	95.2
57	99.6	98.4	96.8	94.8
58	99.5	98.3	96.5	94.3
59	99.5	98.1	96.2	93.8
60	99.4	98.0	95.9	93.3
61	99.4	97.8	95.5	92.7
62	99.3	97.6	95.0	92.0
63	99.3	97.3	94.5	91.2
64	99.2	97.1	94.0	90.4
65	99.1	96.7	93.3	89.5
66	99.0	96.4	92.6	88.5
67	98.9	95.9	91.8	87.4
68	98.8	95.4	91.0	86.2
69	98.6	94.9	90.0	84.9
70	98.4	94.3	89.0	83.5

1983 Group Annuity Table with Projection H,
with mortality rates based on calendar year of
birth of 1930 and interest at the rate of 7% per
annum.

Life Ann/Opt.

**THE HANOVER INSURANCE GROUP CASH BALANCE
PENSION PLAN**

PART II

(As amended and restated generally effective January 1, 2010)

Part II

**THE HANOVER INSURANCE GROUP CASH BALANCE
PENSION PLAN**

PART II

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ARTICLE I

NAME, PURPOSE AND EFFECTIVE DATE OF PLAN

- 1.01 **General Statement.** The Hanover Insurance Group Cash Balance Pension Plan (the “**Plan**”) consists of three parts, Part I, Part II and Part III. Part I of the Plan provides a cash balance and pension benefit, which was formerly provided under a plan known as “The Allmerica Financial Cash Balance Pension Plan”. Part II of the Plan provides a pension benefit, which was formerly provided under a plan known as “The Allmerica Financial Agents’ Pension Plan”. Part III of the Plan contains provisions applicable to each of Part I and Part II.

The provisions of Part III of the Plan shall override any provision of Part II of the Plan as provided in Part III of the Plan.

The benefits payable to eligible Participants under Part II of the Plan are governed by the terms and conditions of Part II of the Plan and Part III of the Plan. Terms used in this Part II of the Plan are defined in Part I of the Plan, except as otherwise specifically provided in this Part II of the Plan.

- 1.02 **Name of Plan.** The prior version of this Part II of the Plan, known as The Allmerica Financial Agents’ Pension Plan, was generally effective January 1, 1999 (except for those provisions of the Plan which had an alternative effective date). The effective date of the prior version of this Part II of the Plan (the “**Prior Agents’ Plan**”) was January 1, 1971. Effective January 1, 1992, the Prior Agents’ Plan was merged with and became a part of The Allmerica Financial Cash Balance Pension Plan, formerly known as The State Mutual Companies’ Pension Plan. Thus, the Prior Agents’ Pension Plan became Part II of The Hanover Insurance Group Cash Balance Pension Plan. On December 31, 2007, First Allmerica did not employ any person who was eligible to participate or was actively participating in The Allmerica Financial Agents’ Pension Plan. Effective January 1, 2008, First Allmerica transferred sponsorship of, and the liabilities and obligations associated with, The Hanover Insurance Group Cash Balance Plan (including The Allmerica Financial Agents’ Pension Plan) to Hanover, and Hanover agreed to assume sponsorship of, and the liabilities and obligations associated with, The Hanover Insurance Group Cash Balance Pension Plan as of such date.

- 1.03 **Purpose.** This Part II of the Plan has been established for the exclusive benefit of Participants and their Beneficiaries and as far as possible shall be interpreted and administered in a manner consistent with this intent and consistent with the requirements of Section 401 of the Internal Revenue Code.

Subject to Article IV of Part III of the Plan (Limitations on Benefits) and to Section 10.04 of Part III of the Plan, which relates to the return of Employer contributions under special circumstances, until such time as the Plan has been terminated and all Plan liabilities have been satisfied, under no circumstances shall any assets of the Plan, or any contributions made under the Plan, be used for, or diverted to, purposes other than for the exclusive benefit of the Participants and their Beneficiaries and to defray reasonable expenses incurred in the administration of the Plan.

- 1.04 Restated Plan Effective Date. The effective date of this amended and restated Part II of the Plan is January 1, 2010 (except for those provisions of this Part of the Plan which have an expressly stated alternative effective date). Except to the extent otherwise specifically provided in this Part II of the Plan, (i) the terms and conditions of this amended and restated Part II of the Plan shall apply only to those eligible Employees actively employed by the Employer (or to those eligible Career Agents with a Career Agent Contract in force) on or after January 1, 2010. The rights and benefits of any Participant whose employment with the Employer terminated (or whose Career Agent Contract terminated) prior to January 1, 2010 shall be determined in accordance with the provisions of this Part II of the Plan as were in effect during the appropriate time or times prior to January 1, 2010; provided, however, that if the Accrued Benefit of any such Participant has not been completely distributed before January 1, 2010, then such Accrued Benefit shall be accounted for and distributed in accordance with the provisions of this version of Part II of the Plan, but only to the extent that any such provision is not inconsistent with Part III of the Plan and subject to the requirements of applicable law and as otherwise specifically provided herein.

ARTICLE II

DEFINITIONS

All section and article references in this Part II are to section and article references in this Part II, except as otherwise expressly provided.

Except to the extent a word or phrase is specifically defined in this Part II of the Plan, the words and phrases used in this Part II of the Plan shall have the meanings set forth in Part I of the Plan, unless a different meaning is clearly required by the context or is otherwise provided in Part III of the Plan.

2.01 "Accrued Benefit":

- (a) means, except as provided in (c) or (d) below, the sum of a Participant's frozen Grandfathered Benefit (accrued during Years of Credited Service completed prior to January 1, 1999) and the defined benefit credited to eligible Participants in accordance with Section 5.01 attributable to Years of Credited Service completed by the Participant after December 31, 1998.
- (b) No Employee contributions shall be required or permitted for Plan Years beginning after December 31, 1988. The portion of a Participant's Accrued Benefit derived from required Employee contributions made on or after January 1, 1971 and prior to January 1, 1989 will be determined in accordance with the rules set forth below:
 - (i) STEP ONE - Determine the total amount of such contributions made by a Participant as a condition of participation in Part II of the Plan;

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- (ii) STEP TWO - Add to the amount in Step One interest required by the terms of Part II of the Plan to be credited to such contributions up to the Plan's ERISA compliance date;
- (iii) STEP THREE - Add to the sum of the amounts determined in Steps One and Two interest compounded annually at the rate of 5% from the Plan's ERISA compliance date or the date the Participant began participation in Part II of the Plan, whichever is later, to the end of the last Plan Year beginning before January 1, 1988 or the Participant's Normal Retirement Date, whichever is earlier.
- (iv) STEP FOUR - Add to the sum of the amounts determined in Steps One, Two and Three interest compounded annually -
- (A) at the rate of 120 percent of the Federal mid-term rate (as in effect under Section 1274 of the Code for the first month of the Plan Year) from the beginning of the first Plan Year beginning after December 31, 1987, and ending with the date on which the determination is being made, and
- (B) at the interest rate which would be used under Part II of the Plan under Section 417(e)(3) of the Code (as of the determination date) for the period beginning with the determination date and ending on the date on which the Employee attains his Normal Retirement Date.
- Notwithstanding the foregoing, for Plan Years beginning after December 31, 1998, the interest rate credited in Step (iv) (A) shall not be less than 5%.
- (v) STEP FIVE - The amount in Step 4 will be converted into the normal form of benefit using the interest rate that would be used under Part II of the Plan under Code Section 417(e)(3).

The portion of a Participant's Accrued Benefit derived from Employee contributions made prior to January 1, 1971 shall be equal to the total amount of such contributions made by a Participant, plus interest credited thereon. For Plan Years beginning prior to January 1, 1999, interest on such contributions shall be credited at the rate or rates in effect for each Plan Year under the terms of Part II of the Plan as in effect on December 31, 1998. For Plan Years beginning after December 31, 1998, interest on such contributions shall be credited as provided in STEPS FOUR and FIVE above.

The portion of the Accrued Benefit described in Subsection (a) derived from Employer contributions as of any date is equal to such total Accrued Benefit less the portion derived from Employee contributions.

At all times the portion of a Participant's Accrued Benefit attributable to mandatory Employee contributions shall be 100% vested and nonforfeitable.

- (c) means, with respect to the minimum benefit for Non-Key Employee Participants in a Top Heavy Plan, the sum of such benefits earned by the Participant, which benefits are payable at the Participant's Normal Retirement Date and are described in Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans).
- (d) (i) Notwithstanding anything in Subsections (a), (b) or (c) to the contrary, unless a repayment has been made in accordance with the rules set forth in subparagraph (ii) below, in determining the portion of an Employee's Accrued Benefit derived from Employer Contributions upon a resumption of participation, periods of service with respect to which the Employee received a distribution of the present value of his vested Accrued Benefit shall be disregarded.
- (ii) In the case of an election of Option 2 described in Section 7.02 or in the case of an involuntary cash-out of the present value of an Employee's Accrued Benefit in accordance with such Section, the Employee's Accrued Benefit described in Subsections 2.01(a), (b) and (c) (including all optional forms of benefits and subsidies relating to such benefits) shall be restored if the Employee repays the amount distributed plus interest, compounded annually from the date of distribution at the rate of 5 percent. Such repayment must be made by the Employee before the earlier of five years after the first date on which the Employee is subsequently reemployed by the Employer, or the date the Employee incurs five consecutive One Year Breaks in Service following the date of distribution; provided, however, that there shall be no right of repayment if the Employee was 100% vested on the date of his termination of participation.

Notwithstanding anything in Part II of the Plan to the contrary, for Plan Years beginning before Section 411 of the Code is applicable hereto, the Participant's Accrued Benefit shall be the greater of that provided by Part II of the Plan, or 1/2 of the benefit which would have accrued had the provisions of this Section 2.01 been in effect. In the event the Accrued Benefit as of the effective date of Code Section 411 is less than that provided hereunder, such difference shall be accrued in accordance with this Section.

2.02 “Actuarial Equivalent” means a benefit having the same value as the benefit or benefits otherwise payable. Except as otherwise provided in this Section, the present value of any benefit determined under the terms of Part II of the Plan will be the actuarial equivalent of the no-death benefit life annuity retirement benefit specified in Section 5.01.

Actuarial Equivalent life annuity settlements of optional life annuity Top Heavy Plan benefits will be computed utilizing (i) the Code Section 417 Mortality Table and (ii) the Code Section 417 Interest Rate for determining the amount payable to a Participant having an annuity starting date on or after January 1, 2004.

Optional life annuity benefits will be computed on the basis of the 1983 Group Annuity Table with Projection H, with mortality rates based on calendar year of birth of 1930 and interest at the rate of 7% per annum. Adjustment factors used to determine optional forms of life annuity benefits are included in Exhibit A, attached hereto and made a part of Part II of the Plan. Adjustment factors for optional life annuity benefits not illustrated will be computed on an actuarial basis consistent with that used in computing the factors shown in Exhibit A.

The present value of any Plan benefit and the amount of any cash distribution shall be determined on the basis of (i) the mortality rates specified above and an interest rate of 7% per annum or (ii) the Code Section 417 Mortality Table and the Code Section 417 Interest Rate (or for determining the amount payable to a Participant having an annuity starting date on and after January 1, 2008, the Code Section 417 Applicable Interest Rate), whichever produces the greater benefit.

The preceding paragraphs shall not apply to the extent they would cause the Plan to fail to satisfy the requirements of Article IV of Part III of the Plan (Limitations on Benefits) or Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans).

For purposes of Part II of the Plan,

- (a) the “ **Code Section 417 Mortality Table** ” means the applicable mortality table prescribed by the Secretary of the Treasury pursuant to Code Section 417(e)(3), as in effect from time to time, provided, however, that notwithstanding the preceding provisions of this paragraph, for distributions commencing on or after December 31, 2002 and prior to January 1, 2008, the Code Section 417 Mortality Table means the Table set forth in Revenue Ruling 2001-62 and for purposes of determining the amount payable to a Participant with an annuity starting date on or after January 1, 2008, the Code Section 417 Mortality Table means the Table set forth in Revenue Ruling 2007-67 or such other Table as may be prescribed by the Secretary of the Treasury pursuant to Code Section 417(e)(3);
- (b) for periods beginning on and after January 1, 2004, the “ **Code Section 417 Interest Rate** ” means, for the Plan Year which contains the annuity starting date for the distribution, the annual rate of interest on a 30-year Treasury securities in effect for the second month immediately preceding the first day of the Plan Year (*e.g.* , November 2009 for the 2010 Plan Year), and

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- (c) for periods beginning on and after January 1, 2008, the “ **Code Section 417 Applicable Interest Rate** ” means, for the Plan Year which contains the annuity starting date for the distribution, the applicable interest rate described by Code section 417(e) after its amendment by the Pension Protection Act of 2006, which rate more specifically shall be the adjusted first, second, and third segment rates applied under rules similar to the rules of Code Section 430(h)(2)(C) for the lookback month used to determine the previously applicable interest rate on 30-year Treasury securities (*e.g.* , November 2009 for the 2010 Plan Year) or for such other time as the Secretary of the Treasury may by regulations prescribe.
 - (d) For purposes of determining the Code Section 417 Applicable Interest Rate, the first, second, and third segment rates are the first, second, and third segment rates which would be determined under Code Section 430(h)(2)(C) if:
 - (i) Code Section 430(h)(2)(D) were applied by substituting the average yields for the month described in clause (ii) below for the average yields for the 24-month period described in such Code section, and
 - (ii) Code Section 430(h)(2)(G)(i)(II) were applied by substituting “Section 417(e)(3)(A)(ii)(II) for “Section 412(b)(5)(B)(ii)(II)”, and
 - (iii) The applicable percentage under Code section 430(h)(2)(G) is treated as being 20% in 2008, 40% in 2009, 60% in 2010, and 80% in 2011.

2.03 “Compensation” means:

- (a) For purposes of determining a Participant’s Normal Retirement Benefit specified in Section 5.01 of Part II of the Plan, a Participant’s total calendar year compensation paid (or deferred pursuant to an unfunded, non-qualified deferred payment arrangement) on and after the date he becomes a Participant and while he remains in an eligible class of Employees for (i) and (ii) below:
 - (i) services performed in connection with the sale and service of products of First Allmerica Financial Life Insurance Company.
 - (ii) services performed in connection with the sale and service of products of Allmerica Financial Life Insurance and Annuity Company.

Compensation shall also mean and include:

- (iii) commissions paid to the Participant by Allmerica Investments, Inc., and

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- (iv) compensation which is not currently includable in the Participant's gross income by reason of the application of Sections 125, 402(e)(3) or 132(f)(4) of the Code.

Notwithstanding the foregoing, for purposes of Subsection (a) renewal commissions received which are attributable to business sold prior to the date the Employee became a Career Agent or General Agent of the Employer shall be excluded.

- (b) For purposes of Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans) and or for purposes of Article IV of Part III of the Plan (Limitations on Benefits), the term "Compensation" means a Participant's earned income, wages, salaries, fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan (as described in Section 1.62-2(c) of the Treasury Regulations), and excluding the following:
 - (i) Employer contributions to a plan of deferred compensation which are not includable in the Employee's gross income for the taxable year in which contributed, or Employer contributions under a simplified employee pension plan to the extent such contributions are deductible by the employee, or any distributions from a plan of deferred compensation;
 - (ii) Amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
 - (iii) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and
 - (iv) Other amounts which received special tax benefits.

For Plan Years commencing after December 31, 1997, Compensation for purposes of Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans) and Article IV of Part III of the Plan (Limitations on Benefits) shall also include Employee elective deferrals under Code Section 402(g)(3), amounts contributed or deferred by the Employer at the election of the Employee and not includable in the gross income of the Employee by reason of Code Section 125, and elective amounts that are not includable in the gross income of the Employee by reason of Code Section 132(f)(4).

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- (c) Notwithstanding (a) and (b) above, for Plan Years beginning on or after January 1, 1994 and prior to January 1, 2002, the annual Compensation of each Participant taken into account for determining all benefits provided under Part II of the Plan for any determination period shall not exceed \$150,000. This limitation shall be adjusted for inflation by the Secretary under Code Section 401(a)(17)(B) in multiples of \$10,000 by applying an inflation adjustment factor and rounding the result down to the next multiple of \$10,000 (increases of less than \$10,000 are disregarded). The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Compensation is determined beginning in such calendar year. If Compensation is being determined over a period of time that contains fewer than 12 calendar months, then the annual Compensation limit is an amount equal to the annual Compensation limit for the calendar year in which the Compensation period begins multiplied by the ratio obtained by dividing the number of full months in the period by 12.

If Compensation for any prior determination period is taken into account in determining a Participant's benefits for the current Plan Year, the Compensation for such prior determination period is subject to the applicable annual Compensation limit in effect for that prior period. For this purpose, in determining benefits in Plan Years beginning on or after January 1, 1989, the annual compensation limit in effect for determination periods beginning before that date is \$200,000. In addition, in determining benefits in Plan Years beginning on or after January 1, 1994, the annual Compensation limit in effect for determination periods beginning before that date is \$150,000.

- (d) Notwithstanding the foregoing and (a) and (b) above, the annual Compensation of each Participant taken into account in determining benefit accruals in any Plan Year beginning after December 31, 2001, shall not exceed \$200,000. Annual compensation means Compensation during the Plan Year or such other consecutive 12-month period over which Compensation is otherwise determined under Part II of the Plan (the “**determination period**”). For purposes of determining benefit accruals in a Plan Year beginning after December 31, 2001, the annual Compensation for any prior determination period shall be limited to \$200,000.

The \$200,000 limit on annual Compensation for determination periods beginning after December 31, 2001 shall be adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to annual Compensation for the determination period that begins with or within such calendar year.

- 2.04 “Career Agent Contract” means that form of contract between a life insurance agent and the Employer whereby the agent agrees to sell insurance and annuity policies on a full-time basis.

2.05 "Credited Interest" means interest utilized in determining the minimum death benefit specified in Section 6.02 of Part II of the Plan. Such interest shall be at the rate determined in accordance with the Group Annuity Contract, but not less than 3% per annum compounded annually from the January 1st next following the date such contributions were made to the first day of the month as of which the Credited Interest is being determined for periods prior to January 1, 1976, plus 5% per annum compounded annually for periods beginning on or after January 1, 1976 and prior to January 1, 1988, plus the greater of (i) 5% per annum compounded annually or (ii) the interest rate which would be credited under Part II of the Plan under Step (iv)(A) of Subsection 2.01(b) for periods beginning on or after January 1, 1988.

2.06 "Credited Service"

- (a) Except as provided in Subsection (c) and except for Hours excluded under Subsections 2.12(b), (c), (g) and (h), Credited Service shall mean and include all Hours of Service completed with the Employer on and after the date the Employee becomes a Participant in Part II of the Plan, completed while the Participant remains in an eligible class of Employees.
- (b) A Participant shall receive a year of Credited Service for each Plan Year in which he is credited with 1,000 or more Hours of Service with the Employer.

Additionally, for Plan Years beginning after 1998, a Participant shall receive a Year of Credited Service for the Plan Year he retires or dies and a Former Participant shall receive a Year of Credited Service for the Year he again becomes a Participant upon a rehire, in each case regardless of the number of Hours of Service completed in such Year. In no event will a Participant receive more than one Year of Credited Service for any one Plan Year.

- (c) Notwithstanding anything in this Section to the contrary, Credited Service shall not include periods of service with respect to which any Employee has received a distribution described in Section 2.01(d) unless a repayment has been made pursuant to the rules set forth in paragraph (ii) of such Section.
- (d) For purposes only of determining a Participant's eligibility for the Disability Benefit specified in Section 5.03 of Part II of the Plan, the following periods of service shall be counted:
 - (i) periods of prior service with an Affiliate during which he was a participant in a qualified pension or profit sharing plan sponsored by the Affiliate;
 - (ii) periods of prior service with the Employer in a position in which he was not eligible to participate in this Plan during which he was a participant in another qualified pension or profit sharing plan sponsored by the Employer; and

- (iii) the number of full years and completed months during which a General Agent or former General Agent made contributions under Part II of his General Agent's Contract.
- 2.07 "Employee" means any General Agent or life insurance agent who is a common-law employee of the Company or any life insurance agent who holds a Career Agent's Contract with the Employer.
- 2.08 "Employee Contributions" means contributions made by a Participant prior to January 1, 1989 as a condition of participation in Part II of the Plan.
- 2.09 "Employer" means First Allmerica; provided that on and after January 1, 2008 the term "Employer" shall also mean the Plan Sponsor.
- 2.10 "General Agent" means an agent of the Company whose relationship is determined by a General Agent's Agreement wherein the General Agent is required to devote his full-time business activities in the hiring, supervision and management of life insurance agents who sell, administer and service the policies and contracts of the Employer.
- 2.11 "Grandfathered Benefit" means the frozen monthly retirement benefit payable as a single life annuity to a Participant on his Normal Retirement Date, calculated in accordance with the benefit formulas set forth in Sections 5.01 and, if applicable, 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans) as in effect on December 31, 1998. Such benefit shall be calculated based on the Participant's Average Compensation, Final Average Compensation, Credited Service, and the amount of benefit offset as determined by applying Section 5.06, each determined as of December 31, 1998, based on the provisions of Part II of the Plan in effect on such date.
- 2.12 "Hour of Service" means:
- (a) Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer. For purposes of Part II of the Plan a Career Agent shall be credited with 45 Hours of Service for each complete or partial week his Career Agent's Contract remains in force and a General Agent or life insurance agent who is a common-law employee shall be credited with 45 Hours of Service for each complete or partial week he performs duties for the Employer.
 - (b) Each hour for which the Employee is paid, or entitled to payment, by the Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Notwithstanding the preceding sentence:
 - (i) Except in the case of a Participant who is eligible for the Disability Benefit specified in Section 5.04, no more than 1,000 Hours shall be credited to an Employee under this Subsection (b) on account of any single continuous period during which the Employee performs no duties (whether or not such period occurs in a single computation period);

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- (ii) No hours shall be credited under this Subsection (b) for any payments made or due under a plan maintained solely for the purpose of complying with any applicable workers' compensation, unemployment compensation or disability insurance laws; and
 - (iii) No hours shall be credited under this Subsection (b) for a payment which solely reimburses an Employee for medical or medically related expenses incurred by the Employee.

For purposes of this Subsection (b) a payment shall be deemed to be made by or due from the Employer regardless of whether such payment is made by or due from the Employer directly, or indirectly through, among others, a trust fund or insurer, to which the Employer contributes or pays premiums.

- (c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service shall not be both credited under Subsections (a) or (b), as the case may be, and under this Subsection. No more than 501 Hours shall be credited under this Subsection for a period of time during which an Employee did not or would not have performed duties.
- (d) Special rules for determining Hours of Service under Subsections (b) and (c) for reasons other than the performance of duties. In the case of a payment which is made or due which results in the crediting of Hours of Service under Subsection (b) or in the case of an award or agreement for back pay, to the extent that such an award or agreement is made with respect to a period during which an Employee performs no duties, the number of Hours of Service to be credited shall be determined as follows:
 - (i) In the case of a payment made or due which is calculated on the basis of units of time (such as hours, days, weeks or months), the number of Hours of Service to be credited shall be determined as provided in Subsection (a).
 - (ii) Except as provided in Paragraph (d)(iii), in the case of a payment made or due which is not calculated on the basis of units of time, the number of Hours of Service to be credited shall be equal to the amount of the payment divided by the Employee's most recent hourly rate of compensation (as determined below) before the period during which no duties are performed.
 - (A) In the case of General Agents, the hourly rate of compensation shall be the Employee's most recent rate of semi-monthly compensation divided by 80.

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- (B) In the case of life insurance agents, the hourly rate of compensation shall be the minimum wage as established from time to time under Section 6(a)(1) of the Fair Labor Standards Act of 1938, as amended.
 - (iii) Rule against double credit. An Employee shall not be credited on account of a period during which no duties are performed with more hours than such Employee would have been credited but for such absence.
 - (e) Crediting of Hours of Service to computation periods.
 - (i) Hours of Service described in Subsection (a) shall be credited to the Employee for the computation period or periods in which the duties are performed.
 - (ii) Hours of Service described in Subsection (b) shall be credited as follows:
 - (A) Hours of Service credited to an Employee on account of a payment which is calculated on the basis of units of time (such as hours, days, weeks or months) shall be credited to the computation period or periods in which the period during which no duties are performed occurs, beginning with the first unit of time to which the payment relates.
 - (B) Hours of Service credited to an Employee by reason of a payment which is not calculated on the basis of units of time shall be credited to the computation period in which the period during which no duties are performed occurs, or if the period during which no duties are performed extends beyond one computation period, such Hours of Service shall be allocated between not more than the first two computation periods in accordance with reasonable rules established by the Employer, which rules shall be consistently applied with respect to all Employees within the same job classification, reasonably defined.
 - (iii) Hours of Service described in Subsection (c) shall be credited to the computation period or periods to which the award or agreement for back pay pertains, rather than to the computation period in which the award, agreement or payment is made.
 - (f) For purposes of Article III (Participation Requirements), determining eligibility for early retirement (Section 5.02) and Article VII (Benefits upon Termination from Service), Hours of Service shall also include Hours of Service determined in accordance with the rules set forth in this Section 2.12 and which would not have been excluded if such Service had been performed with the Employer, completed prior or subsequent to the Employee's commencement of service with the Employer, completed with an Affiliate, as a General Agent or with the Employer in a position in which he was not eligible to participate in this Plan.

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- (g) Rules for Maternity or Paternity Leaves of Absence. In addition to the foregoing rules and solely for purposes of determining whether a One Year Break in Service for participation and vesting purposes has occurred in a computation period, an individual who is absent for maternity or paternity reasons, shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence, or in any case in which such Hours cannot be determined, 8 Hours of Service per day of such absence. Provided, however, that:
- (i) Hours shall not be credited under both this Subsection (g) and one of the other Subsections of this Section 2.12;
 - (ii) no more than 501 hours shall be credited for each maternity or paternity absence; and
 - (iii) if a maternity or paternity leave extends beyond one Plan Year, the Hours shall be credited to the Plan Year in which the absence begins to the extent necessary to prevent a One Year Break in Service, otherwise such Hours shall be credited to the following Plan Year. For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (i) by reason of the pregnancy of the individual, (ii) by reason of a birth of a child of the individual, (iii) by reason of the placement of a child with the individual, in connection with the adoption of such child by such individual, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement.
- (h) Other Federal Law. Nothing in this Section 2.12 shall be construed to alter, amend, modify, invalidate, impair or supersede any law of the United States or any rule or regulation issued under any such law.

2.13 “Normal Retirement Age” means the later of:

- (a) the 65th birthday of the Employee; or
- (b) the fifth anniversary of the time the Participant commenced participation in Part II of the Plan.

For purposes of the foregoing, the participation commencement date is the first day of the Plan Year in which the Participant commenced participation in Part II of the Plan.

2.14 “Normal Retirement Date” shall mean the first day of the month next following the Participant’s Normal Retirement Age.

- 2.15 (a) "One Year Break in Service" means, except for purposes of Article III (Participation Requirements), any Plan Year during which the Employee has not completed more than 500 Hours of Service.
- (b) For purposes of Article III, "One Year Break in Service" means a twelve consecutive month period, computed with reference to the date the Employee's employment commenced, during which the Employee does not complete more than 500 Hours of Service.

ARTICLE III

PARTICIPATION REQUIREMENTS

3.01 Participation Requirements.

- (a) Employee Participation. Individuals who were Participants in Part II of the Plan on December 31, 2009 shall continue as a Participant in this Part II of the Plan on January 1, 2010. On and after January 1, 1983 no additional Employees shall be eligible to become Participants in Part II of the Plan.
- (b) Notwithstanding the rules set forth in Subsection (a), a Former Participant who again becomes eligible to participate in Part II of the Plan will become a Participant on the date of his recommencement of service with the Employer.
- (c) Notwithstanding anything in Part II of the Plan to the contrary, for periods commencing on and after January 1, 2003, a Former Participant who is re-employed as an Employee shall be reinstated as an active Plan Participant only for purposes of increasing Plan vesting on his or her frozen Accrued Benefit and for purposes of determining eligibility for early retirement under Section 5.02.

3.02 Classification Changes. In the event of a change in job classification, such that an Employee, although still in the employment of the Employer, no longer is an eligible Employee, he shall receive no further Credited Service under Part II of the Plan, and the Participant's Accrued Benefit on the date he becomes ineligible shall continue to vest, become payable or be forfeited, as the case may be, in the same manner and to the same extent as if the Employee had remained a Participant.

For periods commencing prior to January 1, 2003, in the event a Participant becomes ineligible to accrue further Credited Service because he is no longer a member of an eligible class of Employees, but has not terminated his employment with the Employer, such Employee shall again be eligible to accrue further Credited Service immediately upon his return to an eligible class of Employees.

3.03 Participant Cooperation. Each eligible Employee who becomes a Participant thereby agrees to be bound by all of the terms and conditions of this Plan. Each eligible

Employee, by becoming a Participant, agrees to cooperate fully with the Insurer, including completion and signing of such forms as are required by the Insurer under the Group Annuity Contract.

ARTICLE IV

EMPLOYER CONTRIBUTIONS

- 4.01 Employer Contributions. Each Employer shall pay to the Trustee for each Plan Year such amount which, when combined with required Employee Contributions, shall be necessary in the opinion of the Plan's enrolled actuary to provide the benefits of Part II of the Plan.
- 4.02 Plan Contributions to Trustees. The Employer shall make payment of all contributions directly to the Trustee to be held, managed and invested in one or more Group Annuity Contracts and in other investments permitted under the Trust, but subject to Section 4.03.
- 4.03 Receipt of Contributions by Trustee. The Trustee shall accept and hold under the Trust Indenture such contributions of money, or other property approved for acceptance by the Trustee, on behalf of the Employer and its Employees and Beneficiaries, as it may receive from time to time, other than cash it is instructed to remit to the Insurer for deposit with the Insurer. However, the payor may pay contributions directly to the Insurer and such payment shall be deemed a contribution to the Trust to the same extent as if payment had been made to the Trustee. All such contributions shall be accompanied by written instructions from the Plan Administrator accounting for the manner in which they are to be credited.

Notwithstanding the foregoing, for periods commencing on and after January 1, 1992, Plan contributions will also be used to fund costs and provide benefits under the merged State Mutual Companies' Pension Plan, which plan was merged with The Allmerica Financial Agents' Pension Plan on such date.

ARTICLE V

RETIREMENT AND DISABILITY BENEFITS

- 5.01 Normal Retirement Benefit. (Applicable to all Employees who are active Participants on or after January 1, 1999).

Except as provided in Sections 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans) and Section 5.06 of Part II of the Plan, each Participant who retires on his Normal Retirement Date shall be entitled to receive a monthly retirement income, commencing on his Normal Retirement Date and terminating on the last regular payment date prior to his death, which monthly retirement income will be equal to the sum of (a) and, if applicable, (b) below:

- (a) The Participant's Grandfathered Benefit; and

(b) For those Participants whose Participant Number is listed on Exhibit B, attached hereto and made a part hereof, an amount equal to 1/12 of the Participant's Post-1998 Annual Accrued Benefit.

For purposes of Part II of the Plan, a Participant's Post-1998 Annual Accrued Benefit shall be equal to the Participant's total Compensation paid during all Years of Credited Service completed after December 31, 1998 multiplied by the Participant's individual accrual percentage. Each eligible Participant's accrual percentage is set forth in Exhibit B.

5.02 Early Retirement Benefit

An actively employed Participant in Part II of the Plan who has completed at least 15 Years of Service may retire on the first day of any month after his 55th birthday, in which event, except as provided in Section 5.06, he shall receive a monthly retirement benefit equal to the appropriate percentage set forth below of his Accrued Benefit.

Notwithstanding the above, if the Plan is top heavy and the minimum benefit for Non-Key Employees described in Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans) is to be provided to the Participant, the Participant's early retirement benefit shall be equal to the appropriate percentage set forth below of the Participant's Accrued Benefit (as described in Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans)) earned as of the date of his early retirement.

In the event of early retirement, benefits shall be determined as of the date of retirement and shall be equal to the following percentage of the benefit payable at Age 65:

<u>Retirement Age*</u>	<u>Percentage of Monthly Accrued Benefit</u>
65	100%
64	97
63	94
62	91
61	88
60	85
59	82
58	79
57	76
56	73
55	70
54	67
53	64
52	61
51	58
50	55

- * If benefit payments commence in a month other than the month in which the Participant attains the specified Age, the percentage shall be determined by straight line interpolation.

If a Participant terminates his employment (or terminates his Career Agent Contract) after having completed at least 15 Years of Service, he may elect to retire at any time after the first day of the month next following his 55th birthday and prior to his Normal Retirement Date and receive a retirement benefit based on his Credited Service as of the date of termination. The benefit to be provided to any such terminnee shall be equal to the appropriate percentage set forth above of his Accrued Benefit.

Notwithstanding anything in this Section to the contrary, any Participant who was actively employed on June 30, 1977 may elect early retirement on the earlier of (i) and (ii) below, in which event, except as provided in Section 5.06, he shall receive a monthly retirement benefit equal to the appropriate percentage set forth above of his Accrued Benefit.

- (i) the first day of the month following attainment of Age 50, and completion of at least 20 Years of Service; and
- (ii) the first day of any month following attainment of Age 55 and completion of at least 15 Years of Service.

5.03 Late Retirement Benefit.

With the consent of the Employer, a Participant may elect to have his retirement benefit deferred to a late retirement date which may be the first day of any month after his Normal Retirement Date; provided, however, that Employer consent shall not be required for Employees protected beyond their Normal Retirement Date under the Age Discrimination in Employment Act of 1967, as amended or under applicable state law. Except as provided in Section 5.06, the monthly benefit payable to the Participant on his late retirement date shall be equal to the sum of (a) and (b) below:

- (a) The Participant's Grandfathered Benefit, which benefit will be actuarially increased; and
- (b) For those Participants whose Participant Number is listed on Exhibit B, attached hereto and made a part hereof, an amount equal to 1/12 the Participant's Post-1998 Annual Accrued Benefit, which benefit will be actuarially increased.

For purposes of Part II of the Plan, a Participant's Post-1998 Annual Accrued Benefit shall be equal to the Participant's total Compensation paid during all Years of Credited Service completed after December 31, 1998, including Years of Credited Service completed after the Participant's Normal Retirement Date, multiplied by the Participant's individual accrual percentage. Each eligible Participant's accrual percentage is set forth in Exhibit B. Actuarial increases will be determined as provided in Exhibit A, attached hereto and made a part hereof.

Notwithstanding the above, if the Plan is top heavy and the minimum benefit for Non-Key Employees described in Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans) is to be provided to the Participant, the Participant's late retirement benefit shall be determined in accordance with Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans), with top-heavy minimum benefits being computed for each Year of Service completed until the Participant's Late Retirement Date, which resulting benefit shall be actuarially increased.

5.04 Disability Benefit.

If a Participant becomes Totally Disabled while employed as a General Agent or while his Career Agent Contract remains in force and if such total disability commenced after the Participant had completed at least five Years of Credited Service, it shall be assumed for purposes of this Plan that his employment or contractual relationship continued unchanged from the date of the commencement of his total disability to the earliest of his Normal Retirement Date, death, termination of employment (or, in the case of an Agent, termination of his Career Agent Contract) or the date that he is no longer Totally Disabled. While an Employee is Totally Disabled it shall be assumed for purposes of this Section that the Employee continued to earn annually an amount determined by dividing by three the Compensation paid to the Participant during the 36 months prior to the month in which he became Totally Disabled.

For purposes of this Part II of the Plan “ **Totally Disabled** ” means the inability to perform the duties of any occupation for which the Employee is reasonably fitted by training, education or experience; provided, however, that during the first 30 months of any disability an Employee will be considered Totally Disabled if he is unable to perform the duties of his occupation and is not working at any other occupation unless such occupation constitutes rehabilitative employment approved by the Plan Administrator.

5.05 Distribution of Benefits. The Plan Administrator shall direct the Insurer to commence payment of benefits provided under this Article V (or provided to a Former Participant pursuant to Article VII of Part II of the Plan). Plan benefits will be paid only on death, disability, termination of employment, Plan termination or retirement.

Except as otherwise provided in Section 5.06 of Part II of the Plan, the requirements of this Section shall apply to any distribution of a Participant's interest and will take precedence over any inconsistent provisions of this Part II of the Plan.

All distributions required under the Plan shall be determined and made in accordance with the Regulations under Code Section 401(a)(9), including, to the extent applicable, the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed Regulations.

Except as provided below and in Section 5.06, a Participant's retirement benefit shall be payable as a life annuity for the life of the Participant with no further benefits payable after the last regular payment date prior to his death.

At any time prior to actual retirement a Participant, with spousal consent if the Participant is married, may elect to receive his retirement benefit under one or more of the following settlement options:

- (a) An annuity for the joint lives of the Participant and his spouse with 50% or $66 \frac{2}{3}$ % (whichever is specified when this option is elected) of such amount payable as an annuity for life to the survivor. No further benefits are payable after the death of both the Participant and his spouse.
- (b) An annuity for the life of the Participant and upon his death 100%, $66 \frac{2}{3}$ %, or 50% (whichever is specified when this option is elected) of the annuity amount will be continued to his spouse as his contingent annuitant. No further annuity benefits are payable after the death of both the Participant and his spouse.
- (c) An annuity for the life of the Participant with guaranteed installment payments for a period certain not longer than the life expectancy of the Participant.
- (d) An annuity for the life of the Participant with guaranteed installment payments for a period certain not longer than the life expectancy of the Participant and his spouse.
- (e) A lump sum amount equal to the present value of the portion of the Participant's Accrued Benefit described in Section 2.01(b) attributable to required Employee Contributions. Additionally, the Participant shall be entitled to receive a monthly annuity benefit equal to the portion of his Accrued Benefit described in Section 2.01(a) attributable to Employer Contributions. The Participant may elect to receive such monthly annuity benefit under one or more of the options described in (a) through (d) above, subject to spousal consent if the Participant is married.

All optional forms of benefits shall be the Actuarial Equivalent (as of the date selected) of the normal retirement benefits described in Section 5.01 of Part II of the Plan or Section 2.03 of Part III of the Plan (Minimum Benefit for Top Heavy Plans). Any spousal consent shall satisfy the requirements of Section 5.06.

Unless the Participant elects otherwise, distribution of benefits will begin no later than the 60th day after the later of the close of the Plan Year in which:

- (i) the Participant attains Normal Retirement Age; or
- (ii) the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant and spouse (or where either the Participant or the spouse has died, the survivor) to consent to a distribution when a benefit is “immediately distributable” (as described below) shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section 5.05 (and provisions of Article III of Part III of the Plan). In no event will benefits begin to be distributed prior to the later of Age 62 or Normal Retirement Age without the consent of the Participant. The consent of the Participant’s spouse will also be required for any such distribution unless the benefit is paid in the form of a Qualified Joint and Survivor Annuity.

If the Accrued Benefit is immediately distributable, the Participant and the Participant’s spouse (or where either the Participant or the spouse has died, the survivor) must consent to any distribution of such Accrued Benefit. The consent of the Participant and the Participant’s spouse shall be obtained in writing within the 90-day period (180-day period for Plan Years beginning January 1, 2007 and thereafter) ending on the annuity starting date. The “ **annuity starting date** ” is the first day of the first period for which an amount is paid as an annuity or any other form. The Plan Administrator shall notify the Participant and the Participant’s spouse of the right to defer any distribution until the Participant’s Accrued Benefit is no longer immediately distributable. Such notification shall include a general description of the material features, and an explanation of the relative values of, the optional forms of benefit available under Part II of the Plan in a manner that would satisfy the notice requirements of Section 417(a)(3) of the Code, and shall be provided no less than 30 days and no more than 90 days (180 days for Plan Years beginning January 1, 2007 and thereafter) prior to the annuity starting date.

Notwithstanding the foregoing, only the Participant need consent to the commencement of a distribution in the form of a Qualified Joint and Survivor Annuity while the Accrued Benefit is immediately distributable. Neither the consent of the Participant nor the Participant’s spouse shall be required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code.

An Accrued Benefit is immediately distributable if any part of the Accrued Benefit could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or Age 62.

Notwithstanding the above, the distribution of the entire interest of a Participant or a Beneficiary must not violate the minimum required distribution rules set forth in Article III of Part III of the Plan.

5.06 Qualified Joint and Survivor Annuity for Married Participants.

- (a) General Rules. Notwithstanding anything in this Article to the contrary, unless a married Participant’s Accrued Benefit has been paid in a lump sum pursuant to Section 5.05 above, such Participant’s retirement benefit will be payable to the Participant and his spouse in the form of a Qualified Joint and Survivor Annuity, with the survivor to receive 100% of the benefit which had been payable during

their joint lives, unless an optional form of benefit is selected pursuant to a qualified election within the 90-day period (180-day period for Plan Years beginning January 1, 2007 and thereafter) ending on the annuity starting date. In the case of an unmarried Participant, unless the Participant elects an optional form of benefit the Participant's retirement benefit will be paid in the form of a no-death benefit life annuity.

(b) Definitions.

- (i) **Qualified election:** A waiver of a Qualified Joint and Survivor Annuity. Any waiver of a Qualified Joint and Survivor Annuity shall not be effective unless: (A) the Participant's spouse consents in writing to the election; (B) the election designates a specific Beneficiary, including any class of Beneficiaries or any contingent Beneficiaries, which may not be changed without spousal consent (or the spouse expressly permits designations by the Participant without any further spousal consent); (C) the spouse's consent acknowledges the effect of the election; and (D) the spouse's consent is witnessed by a Plan representative or notary public. Additionally, a Participant's waiver of the Qualified Joint and Survivor Annuity will not be effective unless the election designates a form of benefit payment which may not be changed without spousal consent (or the spouse expressly permits designations by the Participant without any further spousal consent). If it is established to the satisfaction of a Plan representative that there is no spouse or that the spouse cannot be located, a waiver will be deemed a qualified election.

Any consent by a spouse obtained under this provision (or establishment that the consent of a spouse may not be obtained) shall be effective only with respect to such spouse. A consent that permits designations by the Participant without any requirement of further consent by such spouse must acknowledge that the spouse has the right to limit consent to a specific Beneficiary, and a specific form of benefit where applicable, and that the spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Participant without the consent of the spouse at any time before the commencement of benefits. The number of revocations shall not be limited. No consent obtained under this provision shall be valid unless the Participant has received notice as provided in Subsection (c) below.

- (ii) **Spouse (surviving spouse):** the opposite-gender person, if any, to whom the Participant is lawfully married at the date of his death or at his annuity starting date, whichever is earlier, provided that a former spouse will be treated as the spouse or surviving spouse to the extent provided under a Qualified Domestic Relations Order.

(iii) Annuity starting date: The first day of the first period for which an amount is paid as an annuity or under any other form.

(c) Notice Requirement .

- (i) In the case of a Qualified Joint and Survivor Annuity as described in Subsection (a), the Plan Administrator shall provide each Participant no less than 30 days and no more than 90 days (180 days for Plan Years beginning January 1, 2007 and thereafter) prior to the annuity starting date a written explanation of: (A) the terms and conditions of a Qualified Joint and Survivor Annuity; (B) the Participant's right to make and the effect of an election to waive the Qualified Joint and Survivor Annuity form of benefit; (C) the rights of a Participant's spouse; (D) the right to make, and the effect of, a revocation of a previous election to waive the Qualified Joint and Survivor Annuity; and (E) the relative values of the various optional forms of benefit under Part II of the Plan. Notices given to Participants pursuant to Code Section 411(a)(11) in Plan Years beginning after December 31, 2006 shall include a description of how much larger benefits will be if the commencement of distributions is deferred.
- (ii) A Participant may commence receiving a distribution in a form other than a Qualified Joint and Survivor Annuity less than 30 days after receipt of the written explanation described in the preceding paragraph provided: (1) the Participant has been provided with information that clearly indicates that the Participant has at least 30 days to consider whether to waive the Qualified Joint and Survivor Annuity and elect (with spousal consent) a form of distribution other than a Qualified Joint and Survivor Annuity; (2) the Participant is permitted to revoke any affirmative distribution election at least until the Distribution Commencement Date or, if later, at any time prior to the expiration of the 7-day period that begins the day after the explanation of the Qualified Joint and Survivor Annuity is provided to the Participant; and (3) the Distribution Commencement Date is after the date the written explanation was provided to the Participant. For distributions on or after December 31, 1996, the Distribution Commencement Date may be a date prior to the date the written explanation is provided to the Participant if the distribution does not commence until at least 30 days after such written explanation is provided, subject to the waiver of the 30-day period. For the purposes of this paragraph, the "**Distribution Commencement Date**" is the date a Participant commences distributions from Part II of the Plan. If a Participant commences distribution with respect to a portion of his/her Accrued Benefit, a separate Distribution Commencement Date applies to any subsequent distribution. If distribution is made in the form of an annuity, the Distribution Commencement Date is the first day of the first period for which annuity payments are made.

- (d) Applicability. The provisions of this Section 5.06 shall apply to any Participant who is credited with at least one Hour of Service with the Employer on or after January 1, 1976. In addition, any living Participant or Former Participant not receiving Plan benefits on August 23, 1984 who would otherwise not receive the benefits prescribed by this Section 5.06 shall be given the opportunity to elect to have the provisions of this Section apply provided such Participant or Former Participant was credited with at least one Hour of Service under this Plan or a predecessor Plan on or after September 2, 1974.

The opportunity to elect a Qualified Joint and Survivor retirement option must be afforded to the appropriate Participants or Former Participants during the period commencing on August 23, 1984 and ending on the dates benefits would otherwise commence to such person.

5.07 Supplementary Pension Benefits.

Effective July 1, 1986, and on each July 1 thereafter, the amount of monthly retirement benefits payable to eligible retirees (as described below) or their Beneficiaries shall be increased by a percentage determined in accordance with the following formula:

$$\text{Percentage Increase} = .8 (M - .07) \times 100$$

For Plan Years beginning after December 31, 2008, for purposes of the above formula, "M" equals the annual coupon return on December 31, 2009 and on each December 31 thereafter of the Barclays Capital U.S. Government/Credit 5-10 Year Index, or its successor.

For Plan Years beginning before January 1, 2009, for purposes of the above formula, "M" equals the earnings rate for the prior Plan Year on assets representing retired life reserves for retirees under this Plan and retirees under The Allmerica Financial Cash Balance Pension Plan as adopted by First Allmerica (now known as The Hanover Insurance Company Cash Balance Pension Plan), certain of First Allmerica's General Agents, retirees of The Hanover Insurance Company ("Hanover") and retirees of Citizens Insurance Company of America, both Affiliates of First Allmerica. Additionally, in determining "M", retired life reserve assets attributable to retirees of Beacon Insurance Company of America, formerly an Affiliate of Hanover, shall be aggregated and combined with the retired life reserve assets of this Plan.

For the Plan Years for which "M" depended on the returns of designated retired life reserve assets, the earnings rate on retired life reserve assets was to be determined by an actuary, using the "investment year block" method of crediting interest that First Allmerica used to credit interest on its Experience Rated group annuity contracts that are in force on an active basis. The resulting earnings rate(s) should neither be associated with nor construed as the investment yield (all or in part) of the pension fund.

For each Plan Year for which "M" depended on the returns of designated retired life reserve assets, the retired life reserve assets for newly qualified retirees to be added to the total retired life assets outstanding was to be determined using a 7% interest rate and the 1971 GAM mortality table.

The determination of “M” and of the overall earnings rate(s) shall be final and conclusively binding for all persons.

The effective date for the payment of supplemental pension benefits paid as a result of this Section shall be each July 1, commencing with July 1, 1986. Those eligible to receive supplemental pension benefits as a result of this Section shall be those Plan retirees and their Beneficiaries who were receiving basic Plan retirement benefits on the July 1 increase effective date, had been retired for at least 18 months on such increase effective date, and:

- (A) were actively employed Plan Participants who had elected an immediate early retirement benefit pursuant to Section 5.02 (or its successor, if any):
- (B) had terminated employment after having met the eligibility requirements for early retirement specified in Section 5.02 (or its successor, if any) and elected to defer receipt of retirement benefits; or
- (C) had retired on or after their Normal Retirement Age after having completed at least 15 Years of Service.

The Beneficiaries of any retiree meeting the above requirements shall be entitled to receive a supplemental pension benefit under this Section if the Beneficiaries were receiving Plan survivor benefits on the July 1 increase effective date.

A supplemental pension benefit determined under this Section shall be added to and become a part of the recipient’s basic Plan benefit and shall be payable during such period and under such option as the basic Plan benefit is being paid.

5.08 Rollovers to Other Qualified Plans.

- (a) Notwithstanding any provision of Part II of the Plan to the contrary that would otherwise limit a distributee’s election under this Article or under Articles VI and VII, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.
- (b) Definitions.
 - (i) Eligible rollover distribution: An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic

payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and any other distribution(s) that is reasonably expected to total less than \$200 during a year. A portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be transferred only to (i) an individual retirement account or annuity described in Section 408(a) or (b) of the Internal Revenue Code; (ii) for taxable years beginning after December 31, 2001 and before January 1, 2007, to a qualified trust which is part of a defined contribution plan that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible; or (iii) for taxable years beginning after December 31, 2006, to a qualified trust or to an annuity contract described in Section 403(b) of the Internal Revenue Code, if such trust or contract provides for separate accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

- (ii) **Eligible retirement plan:** An eligible retirement plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, a Roth IRA as pursuant to in Section 408A(e) of the Code, an annuity plan described in Section 403(a) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified Plan described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution or an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this plan. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.
- (iii) **Distributee:** A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's surviving spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.

(iv) Direct rollover: A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee. For distributions after June 9, 2009, a non-spouse Beneficiary who is a “designated beneficiary” under Code Section 401(a)(9)(E) and the regulations thereunder, by a direct trustee-to-trustee transfer (“**direct rollover**”), may roll over all or any portion of his or her distribution to an individual retirement account the Beneficiary establishes for purposes of receiving the distribution. In order to be able to do a direct rollover of the distribution, the distribution otherwise must satisfy the definition of an eligible rollover distribution.

(v) For distributions after June 9, 2009, a non-spouse Beneficiary who is a “designated beneficiary” under Code Section 401(a)(9)(E) and the regulations thereunder, by a direct trustee-to-trustee transfer (“**direct rollover**”), may roll over all or any portion of his or her distribution to an individual retirement account the Beneficiary establishes for purposes of receiving the distribution. In order to do a direct rollover of the distribution, the distribution otherwise must satisfy the definition of an eligible rollover distribution.

Although a non-spouse Beneficiary may roll over directly a distribution as provided in Subsection (b)(iv) above, any distribution made prior to January 1, 2010 is not subject to the direct rollover requirements of Code Section 401(a)(31) (including Code Section 401(a)(31)(B)), the notice requirements of Code Section 402(f) or the mandatory withholding requirements of Code Section 3405(c). If a non-spouse Beneficiary receives a distribution from the Plan, the distribution is not eligible for a “60-day” rollover.

If the Participant’s named Beneficiary is a trust, the Plan may make a direct rollover to an individual retirement account on behalf of the trust, provided the trust satisfies the requirements to be a “designated beneficiary” within the meaning of Code Section 401(a)(9)(E).

A non-spouse Beneficiary may not roll over an amount which is a required minimum distribution, as determined under applicable Treasury regulations and other Internal Revenue Service guidance. If the Participant dies before his or her required beginning date and the non-spouse Beneficiary rolls over to an IRA the maximum amount eligible for rollover, the Beneficiary may elect to use either the 5-year rule or the life expectancy rule, pursuant to Treasury Regulation Section 1.401(a)(9)-3, A-4(c), in determining the required minimum distributions from the IRA that receives the non-spouse Beneficiary’s distribution.

ARTICLE VI
DEATH BENEFITS

6.01 Pre-Retirement Spouse Benefit for Married Participants.

(a) General Rules. The provisions of this Section shall apply to any Participant or Former Participant described in Subsection (b).

(i) If an eligible married Participant:

- (A) dies after attaining eligibility for early retirement but before actually retiring;
- (B) dies on or after his Normal Retirement Age while still working for the Employer; or
- (C) separates from service on or after his Normal Retirement Age (or after attaining the age necessary for early retirement) and after satisfying the eligibility requirements for the payment of benefits under Part II of the Plan and thereafter dies before beginning to receive such benefits;

then the Participant's surviving spouse will receive a monthly retirement benefit equal to the benefit that would have been payable if the Participant had retired on the day before his death after having elected an immediate Qualified Joint and Survivor Annuity option with a 50% continuation of monthly benefits to be payable to the survivor. The amount of such 50% continuation shall be payable monthly for the life of such spouse, with the first payment payable as of the date of the Participant's death, unless the spouse requests a later commencement date (consistent with the provisions of Part II of the Plan).

(ii) If a fully or partially vested eligible married Participant dies on or before the earliest retirement age, the Participant's surviving spouse will receive the same benefit that would be payable if the Participant had:

- (A) separated from service on the date of death;
- (B) survived to the earliest retirement age;
- (C) retired at the earliest retirement age after having elected an immediate Qualified Joint and Survivor Annuity option with a 50% continuation of monthly benefits to be payable to the survivor; and
- (D) died on the day after the earliest retirement age.

A surviving spouse entitled to benefits under this paragraph (ii) will begin to receive payments at the earliest retirement age unless the spouse requests an earlier or later commencement date (consistent with the provisions of Part II of the Plan).

For purposes of this paragraph (ii) the “earliest retirement age” is the earliest date on which, under Part II of the Plan, the Participant could elect to receive retirement benefits.

In the case of a partially vested Participant, benefits under this paragraph (ii) will be based on the Participant’s vested Accrued Benefit computed on the date of his death.

- (b) Applicability . The provisions of paragraph (a)(i) shall apply to all Participants or Former Participants who were credited with an Hour of Service on or after January 1, 1976 who meet the eligibility requirements described in such paragraph and thereafter die before actually retiring. The provisions of Paragraph (a)(ii) shall apply to any Participant who is credited with at least one Hour of Service on or after August 23, 1984 and to any Participant or Former Participant living on August 23, 1984 not receiving Plan benefits on such date who was credited with at least one Hour of Service on or after January 1, 1976 and who had at least 10 years of vesting service when he separated from service.

- 6.02 Minimum Death Benefit . If no optional form of retirement benefit has been elected by a Participant pursuant to Section 5.05 of Part II of the Plan, a death benefit, as described below, shall be payable. If the death benefit is payable as a result of the Participant’s death, any such death benefit shall be payable to the Participant’s Beneficiary or, if no Beneficiary survives the Participant, to the executors or administrators of the Participant’s estate. If the Participant was survived by his spouse and (i) if the joint and survivor benefit described in Section 5.06 of Part II of the Plan was in effect on the date of the spouse’s death, or (ii) the pre-retirement spouse benefit described in Section 6.01 of Part II of the Plan was being paid to the spouse, any such death benefit shall be payable to the Participant’s Beneficiary, or if such Beneficiary does not survive the spouse, to the executors or administrators of the spouse’s estate.

The amount of this minimum death benefit will be equal to the Participant’s unrefunded required Contributions with Credited Interest to the first day of the month in which the earlier of the Participant’s death or retirement occurred reduced by (i), (ii) and (iii) below:

- (i) the amount of monthly retirement payments which had been paid to the Participant;
- (ii) the amount of monthly payments which had been paid to the Participant and his spouse, if the joint and survivor benefit described in Section 5.08 was being paid; and

- (iii) the amount of retirement benefits which had been paid to the spouse, if the pre-retirement spouse benefit described in Section 6.01 was being paid.

ARTICLE VII

BENEFITS UPON TERMINATION FROM SERVICE

7.01 In General. In the event that an Employee shall terminate service (or, in the case of a Career Agent, the agent terminates his Career Agent's Contract) for any reason other than death, his becoming totally disabled (as described in Section 5.04), Normal, Early or Late Retirement, the interests and rights of such Participant shall be limited to those contained in this Article.

7.02 Options on Termination of Participation. Upon any termination of service described in Section 7.01, a Participant shall have the right, subject to any required spousal consent, to elect either Option 1 or Option 2 described below.

For purposes of determining the Actuarial Equivalent present value of benefits, values shall be calculated using the interest rate(s) specified in Section 2.02.

Any distributions made pursuant to this Article shall be subject to the requirements of Sections 5.05 and 5.06 of Part II of the Plan (and Article III of Part III of the Plan).

Option 1 - Deferred Benefit - Under this Option the Participant will receive a monthly retirement benefit commencing on his Normal Retirement Date equal to the sum of (a) and, if applicable, (b) below:

- (a) 1/12 of the annual deferred benefit described in Section 2.01(b), which deferred benefit is attributable to required Employee contributions.
- (b) In addition, if as of his date of termination of participation the Employee has completed at least the minimum Years of Service required for vesting, he will receive commencing on his Normal Retirement Date, an additional monthly retirement benefit equal to (i) or (ii) below, whichever is applicable:
 - (i) the portion of the Accrued Benefit described in Section 2.01(a) derived from Employer Contributions, multiplied by the appropriate percentage in Subparagraph (iii) below.
 - (ii) in the case of a Non-Key Employee Participant in a Top Heavy Plan, if greater than (i) above, the Accrued Benefit described in Section 2.01(c), multiplied by the appropriate percentage in Subparagraph (iii) below.

<u>Completed Years of Service</u>	<u>Nonforfeitable Percentage</u>
Less than 5	0%
5 or more	100%

Notwithstanding the above, if the Plan is a Top Heavy Plan for any Plan Year beginning after December 31, 1983, then the Plan shall meet the following vesting requirements for such Plan Year and for all subsequent Plan Years, even if the Plan is not a Top Heavy Plan for such subsequent Plan Years.

<u>Completed Years of Service</u>	<u>Nonforfeitable Percentage</u>
Less than 2	0%
2	20
3	40
4	60
5 or more	100

Notwithstanding anything in Part II of the Plan to the contrary, the portion of an Employee's Accrued Benefit derived from Employer Contributions shall be 100% vested upon completion of three (3) Years of Service.

Option 2 - Cash Option - Under this option, except as provided in Section 5.08, the Participant will receive an amount equal to (a) below plus, if applicable, a deferred benefit as described in (b) below:

- (a) an amount equal to the present value of the portion of the Participant's Accrued Benefit described in Section 2.01(b) attributable to required Employee Contributions, and
- (b) In addition, if the Employee is fully or partially vested in the portion of his Accrued Benefit derived from Employer Contributions, as determined from the appropriate table above on the date of his termination of participation, he will receive, commencing on his Normal Retirement Date, a monthly retirement benefit determined in accordance with Subsection (b) of Option 1.

Option 1 will be deemed to have been elected by an Employee unless he elects Option 2 within 90 days of his termination of participation in this Plan.

For purposes of this Article VII, Years of Service means Plan Years during which an Employee completed at least 1,000 Hours of Service; provided, however, for purposes of this Article service shall not be deemed to be interrupted or employment terminated because employment is transferred to a position or job with the Employer in which he is no longer eligible to participate in this Plan, or because the Employee becomes a General Agent who is not a common-law employee of the Company, but service shall be deemed terminated if the Employee terminates from the Employer or as a General Agent.

Notwithstanding anything in of Part II of the Plan to the contrary, a Participant's Normal Retirement Benefit shall become 100% vested and nonforfeitable upon the attainment of his Normal Retirement Age.

Notwithstanding anything in Part II of the Plan to the contrary, (i) a Participant who was actively employed on December 31, 2002 (or an agent whose Career Agent's Contract had not been terminated prior to such date), and (ii) all Former Participants who had not incurred five consecutive One Year Breaks in Service as of December 31, 2002, shall have a fully vested and non-forfeitable interest in any Accrued Benefit that had not been distributed to the Participant or Former Participant prior to December 31, 2002.

- 7.03 Forfeitures. The non-vested portion of a Participant's Accrued Benefit shall be treated as a forfeiture when the Participant or his or her spouse (or surviving spouse) receives a distribution of the present value of his or her vested Accrued Benefit attributable to Employer and Employee Contributions pursuant to Section 7.02 and the Participant's service attributable to such distribution shall be disregarded as provided for in Section 7.06. For purposes of this Section, if the present value of a Participant's vested Accrued Benefit is zero, the Participant shall be deemed to have received a distribution of such vested Accrued Benefit.

In the case of a partially vested terminated Participant who does not receive a distribution pursuant to the above paragraph, the value of the nonvested portion of his Accrued Benefit shall be treated as a forfeiture at the end of the Plan Year in which the Participant incurs a One Year Break in Service until the Participant has completed one Year of Service after he has been re-employed.

Forfeitures will be used to reduce (i) Employer contributions for the Plan Year following the Plan Year in which the forfeiture occurs; and or (ii) the Employer's costs under the Plan.

- 7.04 Resumption of Service. A Participant who terminates his or her participation in Part II of the Plan and who subsequently resumes service with the Employer will again become a Participant, if eligible, on the date of his or her recommencement of such service.

- 7.05 Distribution of Benefits. On the Former Participant's Normal Retirement Date, benefits to which he or she is entitled pursuant to this Article shall be distributed in accordance with Article V.

If a Former Participant entitled to a deferred benefit pursuant to this Article VII dies prior to his or her Normal Retirement Date, the death benefit, if any, to which he is entitled shall be as is specified in Article VI.

- 7.06 Cash Out Repayment Option.

- (a) Notwithstanding anything in this Article to the contrary, unless a repayment has been made in accordance with Subsection (b) below, in determining the portion of an Employee's Accrued Benefit derived from Employer contributions (or, in the case of a Top Heavy Plan, the minimum benefit for Non-Key Employees described in Subsection 2.01(c)) after a resumption of participation, periods of service with respect to which the Employee received a distribution of the present value of his vested Accrued Benefit shall be disregarded.

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- (b) In the case of the distribution of the present value of a partially vested Employee's vested Accrued Benefit in accordance with Section 7.02, the Employee's Accrued Benefit described in Sections 2.01(a) and (b) (including all optional forms of benefits and subsidies relating to such benefits) shall be restored if the Employee repays the amount distributed plus interest, compounded annually from the date of distribution at the rate of 5 percent. Such repayment must be made by the Employee before the earlier of five years after the first date on which the Employee is subsequently reemployed by the Employer, or the date the Employee incurs five consecutive One Year Breaks in Service following the date of distribution.

If an Employee is deemed to receive a distribution pursuant to this Article, and the Employee resumes employment covered under this Plan before the date on which the Employee could no longer repay his distribution under the preceding paragraph, upon the reemployment of such Employee, the Employer-derived Accrued Benefit will be restored to the amount of such Accrued Benefit on the date of the deemed distribution.

- 7.07 Early Retirement Election. Any Participant who terminates service after having completed at least fifteen Years of Service may elect to retire on the first day of any month following his 55th birthday. Any Participant who was actively employed on June 30, 1977 who terminates service after having completed at least twenty Years of Service may elect to retire on the first day of any month following his 50th birthday.
- 7.08 Amendment to Vesting Schedule. If the Vesting Schedule of Part II of the Plan is amended, or the Plan is amended in any way that directly or indirectly affects the computation of a Participant's nonforfeitable percentage, or if the Plan is deemed amended by an automatic change to or from a top-heavy vesting schedule, each Participant with at least 3 Years of Service with the Employer may elect, within a reasonable period after the adoption of the amendment or change, to have their nonforfeitable percentage computed under Part II of the Plan without regard to such amendment or change. The period during which the election may be made shall commence with the date the amendment is adopted or deemed to be made and shall end on the latest of:
- (1) 60 days after the amendment is adopted;
 - (2) 60 days after the amendment becomes effective; or
 - (3) 60 days after the Participant is issued written notice of the amendment by the Employer or Plan Administrator.

EXHIBIT A
ADJUSTMENT FACTORS FOR OPTIONAL AND LATE RETIREMENT BENEFITS

Factors for ages not illustrated on the following tables will be computed on an actuarial basis consistent with that used to compute the factors shown.

JOINT AND SURVIVOR OPTION PERCENTAGES

(Applicable only if the Participant's age, nearest birthday, on the date monthly income commences is 65).

Age Nearest Birthday of Joint Annuitant on the Date Monthly Income Commences to the Participant	Percentage of the Adjusted Retirement Annuity Payments which are to be Continued to the Surviving Joint Annuitant		
	100%	66 ² / ₃ %	50%
50	80.3%	87.1%	90.9%
51	80.7	87.5	91.3
52	81.1	87.9	91.8
53	81.5	88.4	92.2
54	82.0	88.8	92.7
55	82.4	89.3	93.2
56	82.9	89.8	93.8
57	83.3	90.3	94.3
58	83.8	90.9	94.9
59	84.3	91.4	95.5
60	84.8	92.0	96.1
61	85.3	92.7	96.8
62	85.9	93.3	97.5
63	86.4	94.0	98.3
64	86.9	94.7	99.1
65	87.5	95.4	100.0
66	88.0	96.2	100.0
67	88.6	97.0	101.9
68	89.1	97.9	102.9
69	89.6	98.7	104.0
70	90.2	99.6	105.1

1983 Group Annuity Table with Projection H, with
mortality rates based on calendar year of birth of
1930 and interest at the rate of 7% per annum.

CONTINGENT ANNUITANT OPTION PERCENTAGES

(Applicable only if the Participant's age, nearest birthday, on the date monthly income commences is 65).

Age Nearest Birthday of Contingent Annuitant on the Date Monthly Income Commences to the Participant	Percentage of the Adjusted Retirement Annuity Payments which are to be Continued to the Surviving Contingent Annuitant		
	100%	66 ² / 3 %	50%
50	80.3%	85.9%	89.0%~
51	80.7	86.2	89.3
52	81.1	86.5	89.6
53	81.5	86.9	89.8
54	82.0	87.2	90.1
55	82.4	87.5	90.4
56	82.9	87.9	90.6
57	83.3	88.2	90.9
58	83.8	88.6	91.2
59	84.3	89.0	91.5
60	84.8	89.3	91.8
61	85.3	89.7	92.1
62	85.9	90.1	92.4
63	86.4	90.5	92.7
64	86.9	90.9	93.0
65	87.5	91.3	93.3
66	88.0	91.7	93.6
67	88.6	92.1	93.9
68	89.1	92.5	94.2
69	89.6	92.9	94.5
70	90.2	93.2	94.8

1983 Group Annuity Table with Projection H, with
mortality rates based on calendar year of birth
of 1930 and interest at the rate of 7% per annum.

Life Ann/Opt.

ANNUITY OPTION ADJUSTMENT PERCENTAGES

Percentages to be applied to the monthly benefit which would be payable to the Participant on his Retirement Date if no Optional Form of Annuity were in effect to determine the monthly income benefit commencing on the Participant's Retirement Date if one of the following options is in effect.

Age nearest birthday on the date monthly income commences	Annuity Option			
	<u>5C&C</u>	<u>10C&C</u>	<u>15C&C</u>	<u>20C&C</u>
50	99.8%	99.2%	98.3%	97.2%
51	99.8	99.1	98.1	96.9
52	99.7	99.0	97.9	96.6
53	99.7	98.9	97.7	96.3
54	99.7	98.8	97.5	96.0
55	99.6	98.6	97.3	95.6
56	99.6	98.5	97.0	95.2
57	99.6	98.4	96.8	94.8
58	99.5	98.3	96.5	94.3
59	99.5	98.1	96.2	93.8
60	99.4	98.0	95.9	93.3
61	99.4	97.8	95.5	92.7
62	99.3	97.6	95.0	92.0
63	99.3	97.3	94.5	91.2
64	99.2	97.1	94.0	90.4
65	99.1	96.7	93.3	89.5
66	99.0	96.4	92.6	88.5
67	98.9	95.9	91.8	87.4
68	98.8	95.4	91.0	86.2
69	98.6	94.9	90.0	84.9
70	98.4	94.3	89.0	83.5

1983 Group Annuity Table with Projection H,
with mortality rates based on calendar
year of birth of 1930 and interest at the
rate of 7% per annum.

Life Ann/Opt.

LATE RETIREMENT PERCENTAGES

(Applicable only if the Participant's age, nearest birthday, on the date his or her Normal Retirement Date is 65).

The following percentages are applied to retirement benefits determined in accordance with Part II of the Plan prior to any actuarial increase with respect to a Participant whose date of retirement is subsequent to his or her Normal Retirement Date, to determine actuarially increased retirement benefits commencing on his or her Late Retirement Date. If benefits commence in a month other than the month in which the Participant attains the specified age, the percentage shall be determined by straight line interpolation. Percentages for Late Retirement Dates and ages not illustrated will be computed on an actuarial basis consistent with that used to compute the factors shown.

<u>Number of Years Late Retirement Date Succeeds Normal Retirement Date</u>	<u>Actuarial Increase Percentage</u>
1	111.3%
2	124.3%
3	139.2%
4	156.6%
5	176.8%
6	200.4%
7	228.3%
8	261.5%
9	301.1%
10	348.8%

The actuarial basis increase percentages beyond ten years after Normal Retirement Date shall be determined based on the 1951 Group Annuity Table with 2/3 of Projection C, with mortality rates based on calendar year of birth of 1910 and interest at a rate of 6% per annum (male rate).

Notwithstanding the foregoing, if late retirement benefits commence after Age 70 ¹/₂, a Participant's Accrued Benefit shall be actuarially increased to take into account the period after Age 70 ¹/₂ in which the Participant was not receiving any benefits under Part II of the Plan. Any such actuarial increase shall be the greater of (i) the actuarial increase determined in accordance with the rules described above or (ii) such actuarial increase as shall be required under Code Section 401(a)(9)(C) and rules and regulations promulgated thereunder.

Exhibit B

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Part II - 37

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Part II - 38

**THE HANOVER INSURANCE GROUP CASH BALANCE
PENSION PLAN**

PART III

(As amended and restated generally effective January 1, 2010)

Part III

**THE HANOVER INSURANCE GROUP CASH BALANCE
PENSION PLAN**

PART III

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ARTICLE I
PURPOSE AND EFFECTIVE DATE OF PLAN

1.01 General Statement. The Hanover Insurance Group Cash Balance Pension Plan (the “**Plan**”) consists of three parts, Part I, Part II and Part III. Part I of the Plan provides a cash balance and pension benefit, which was formerly provided under a plan known as “The Allmerica Financial Cash Balance Pension Plan”. Part II of the Plan provides a pension benefit, which was formerly provided under a plan known as “The Allmerica Financial Agents’ Pension Plan”. Part III of the Plan contains provisions applicable to each of Part I and Part II.

The provisions of Part III of the Plan shall override any provision of Part I and or Part II of the Plan as provided in Part III of the Plan.

The words and phrases used in this Part III of the Plan shall have the meanings set forth in Part I of the Plan, unless a different meaning is clearly required by the context or is otherwise provided in Part III of the Plan.

1.02 Effective Date. The effective date of Part III of the Plan is January 1, 2010 (except for those provisions of this Part of the Plan which have an expressly stated alternative effective date).

ARTICLE II
PROVISIONS APPLICABLE TO TOP HEAVY PLANS

2.01 Top Heavy Plan Requirements.

- (a) For any Top Heavy Plan Year, the Plan shall provide the following:
 - (i) the minimum vesting requirements for Top Heavy Plans set forth in Section 8.02 of Part I of the Plan and Section 7.02 of Part II of the Plan; and
 - (ii) the minimum benefit accruals for Non-Key Employees set forth in Section 2.03 below.
- (b) Once the Plan has become a Top Heavy Plan, the top heavy vesting requirements described in 8.02 of Part I of the Plan and Section 7.02 of Part II of the Plan shall be applicable to all subsequent Plan Years, regardless of whether such years are Top Heavy Plan Years.
- (c) If the Plan is or becomes a Top Heavy Plan, the provisions of this Article II will supersede any conflicting provision in the Plan.
- (d) In determining Top Heavy Plan vesting, the Top Heavy vesting schedule set forth in 8.02 of Part I of the Plan and in Section 7.02 of Part II of the Plan applies to all benefits within the meaning of Code Section 411(a)(7), including benefits accrued before the effective date of Code Section 416 and benefits accrued before the Plan became top-heavy. Further, no reduction in vested benefits may occur in the

event the Plan's status as top heavy changes for any Plan Year. However, this Section does not apply to the Accrued Benefits of any Employee who does not have an Hour of Service after the Plan has initially become top-heavy and such Employee's Accrued Benefits attributable to Employer contributions will be determined without regard to this Section.

2.02 Determination of Top Heavy Status.

- (a) This Plan shall be a Top Heavy Plan for any Plan Year commencing after December 31, 1983 if any of the following conditions exists:
- (i) If the top heavy ratio for this Plan exceeds 60 percent and this Plan is not part of any required aggregation group or permissive aggregation group of plans.
 - (ii) If this Plan is a part of a required aggregation group of plans (but not part of a permissive aggregation group) and the top heavy ratio for the group of plans exceeds 60 percent.
 - (iii) If this Plan is a part of a required aggregation group and part of a permissive aggregation group of plans and the top heavy ratio for the permissive aggregation group exceeds 60 percent.
- (b) The Plan top heavy ratio shall be determined as follows:
- (i) If the Employer maintains one or more defined benefit plans and the employer has not maintained any defined contribution plan (including any simplified employee pension, as defined in section 408(k) of the Internal Revenue Code) which during the 5-year period ending on the determination date(s) has or has had account balances, the top-heavy ratio for this plan alone or for the required or permissive aggregation group as appropriate is a fraction, the numerator of which is the sum of the present value of Accrued Benefits of all Key Employees as of the determination date(s) (including any part of any Accrued Benefit distributed in the 1-year period ending on the determination date(s)) (5-year period ending on the determination date in the case of a distribution made for a reason other than severance from employment, death or disability), and the denominator of which is the sum of the present value of Accrued Benefits (including any part of any Accrued Benefits distributed in the 1-year period ending on the determination date(s)) (5-year period ending on the determination date in the case of a distribution made for a reason other than severance from employment, death or disability), determined in accordance with section 416 of the Internal Revenue Code and the regulations thereunder.
 - (ii) If the Employer maintains one or more defined benefit plans and the employer maintains or has maintained one or more defined contribution plans (including any simplified employee pension) which during the 5-

year period ending on the determination date(s) has or has had any account balances, the top-heavy ratio for any required or permissive aggregation group as appropriate is a fraction, the numerator of which is the sum of the present value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees, determined in accordance with (i) above, and the sum of account balances under the aggregated defined contribution plan or plans for all Key Employees as of the determination date(s), and the denominator of which is the sum of the present value of accrued benefits under the defined benefit plan or plans for all participants, determined in accordance with (i) above, and the account balances under the aggregated defined contribution plan or plans for all participants as of the determination date(s), all determined in accordance with section 416 of the Internal Revenue Code and the regulations thereunder. The account balances under a defined contribution in both the numerator and denominator of the top heavy ratio are increased for any distribution of an account balance made in the 1-year period ending on the determination date (5-year period ending on the determination date in the case of a distribution made for a reason other than severance from employment, death or disability).

- (iii) For purposes of (i) and (ii) above, the value of account balances and the present value of Accrued Benefits will be determined as of the most recent valuation date that falls within or ends with the 12-month period ending on the determination date, except as provided in Code Section 416 and the regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a Participant (1) who is not a Key Employee but who was a Key Employee in a prior year, or (2) who has not been credited with at least one Hour of Service with any employer maintaining the Plan at any time during the 1-year period ending on the determination date will be disregarded. The calculation of the top-heavy ratio and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Code Section 416 and the regulations thereunder. Deductible employee contributions will not be taken into account for purposes of computing the top-heavy ratio. When aggregating plans, the value of account balances and Accrued Benefits will be calculated with reference to the determination dates that fall within the same calendar year.

The Accrued Benefit of a Participant other than a Key Employee shall be determined under (A) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer, or (B) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Section Code 411(b)(1)(C).

- (c) Permissive aggregation group: The required aggregation group of plans plus any other plan or plans of the Employer which, when considered as a group with the required aggregation group, would continue to satisfy the requirements of Code Sections 401(a)(4) and 410.

- (d) Required aggregation group: (i) Each qualified plan of the Employer in which at least one Key Employee participates or participated at any time during the determination period (regardless of whether the Plan has terminated), and (ii) any other qualified plan of the Employer which enables a plan described in (i) to meet the requirements of Code Sections 401(a)(4) or 410.
- (e) Determination date: The last day of the preceding Plan Year.
- (f) Valuation Date: The last day of each Plan Year, as of which Accrued Benefits are valued for purposes of calculating the top heavy ratio.
- (g) Present value: Present value shall be based on the interest and mortality rates specified in the definition of Actuarial Equivalent.

2.03 Minimum Benefit Requirements for Top Heavy Plans.

(a) Minimum Benefit Requirements for Top Heavy Plans.

Notwithstanding any other provision in this Plan except Subsections (b) and (c) below, for any Plan Year in which this Plan is a Top Heavy Plan, each Participant who is not a Key Employee and has completed at least 1,000 Hours of Service will accrue a benefit (to be provided solely by Employer contributions and expressed as a life annuity commencing at Normal Retirement Age) of not less than 2% of the Participant's highest average Compensation for the five consecutive years in which such Non-Key Employee had the highest Compensation (as defined for purposes of Article III of Part III of the Plan). The aggregate Compensation for the years during such five-year period in which the Participant was credited with a Year of Service will be divided by the number of such years in order to determine average annual Compensation.

Provided, however, that no additional benefit accruals shall be provided pursuant to this Section to the extent that the total accruals on behalf of the Participant attributable to Employer contributions will provide a benefit expressed as a life annuity commencing at Normal Retirement Age that equals or exceeds 20% of the Participant's average Compensation for the five consecutive years in which the Participant had the highest Compensation (as defined for purposes of Article III of Part III of the Plan). All accruals of Employer-derived benefits, whether or not attributable to years for which the Plan is Top Heavy, may be used in computing whether the minimum 20% accrual requirements of this paragraph are satisfied.

The minimum accrual above applies even though under other Plan provisions the Participant would not otherwise be entitled to receive an accrual, or would have received a lesser accrual for the Plan Year because (i) the Non-Key Employee fails to make mandatory contributions to the Plan, (ii) the Non-Key Employee's Compensation is less than a stated amount, (iii) the Non-Key Employee is not employed on the last day of the accrual computation period, or (iv) the Plan is integrated with Social Security.

The Compensation required to be taken into account under this Section is Compensation as defined for purposes of Article III of Part III of the Plan that is not in excess of the applicable dollar limitation imposed by Code Section 401(a)(17). However, Compensation received by a Non-Key Employee for Plan Years beginning after the close of the last year in which the Plan was a Top Heavy Plan shall be disregarded. The minimum accrual determined under this Section shall be determined without regard to any Social Security contribution.

The top-heavy minimum benefit is a life annuity benefit (with no ancillary benefits) commencing at Normal Retirement Age. If the benefit commences at a date other than Normal Retirement Age, the Employee must receive at least an amount that is the Actuarial Equivalent of the minimum single life annuity benefit commencing at Normal Retirement Age.

Notwithstanding the foregoing, for Plan Years beginning after December 31, 2001, for purposes of satisfying the minimum benefit requirements of Code Section 416(c)(1) and the Plan, in determining Years of Service with the Employer, any service with the Employer shall be disregarded to the extent that such service occurs during a Plan Year when the Plan benefits (within the meaning of Code Section 410(b)) no Key Employee or former Key Employee.

- (b) Notwithstanding anything herein to the contrary, in any Plan Year in which a Non-Key Employee participates in both a defined benefit plan and a defined contribution plan included in a Required or Permissive Aggregation Group of Top Heavy Plans, the Employer is not required to provide the Non-Key Employee with both the full and separate minimum benefit and the full and separate minimum contribution. Therefore, if the Employer maintains such a defined benefit and defined contribution plan, the top-heavy minimum benefits shall be provided as follows:
- (i) If a Non-Key Employee is a participant in any such Top Heavy defined contribution plan, the minimum benefit described in Subsection (a) above shall not be provided to each such Non-Key Employee who receives at least the full Top Heavy minimum contribution provided in such defined contribution plan for Non-Key Employee participants.
 - (ii) If a Non-Key Employee is not a Participant in any such Top Heavy defined contribution plan, the minimum and extra minimum benefits, if applicable, described in Subsection (a) shall be provided to each such Non-Key Employee meeting the requirements of Section 2.03(a) above.

Notwithstanding any provision herein to the contrary, no minimum benefit will be required (or the minimum benefit will be reduced, as the case may be) for a Participant under this Plan for any Plan Year if the Employer maintains another qualified defined benefit plan under which a minimum benefit is being accrued in whole or in part for the Participant in accordance with Code Section 416(c).

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- (c) The minimum accrued benefit described in this Section (to the extent required to be nonforfeitable under Code Section 416(b)) may not be forfeited under Code Sections 411(a)(3)(B) or 411(a)(3)(D).

ARTICLE III

MINIMUM DISTRIBUTION REQUIREMENTS

3.01 General Rules.

- (a) Effective date. The provisions of this Article will apply with respect to distributions under the Plan made for calendar years beginning on or after January 1, 2006. With respect to distributions under the Plan made for calendar years beginning on or after January 1, 2002 and prior to the effective date of the application of the Treasury Regulations under Code Section 401(a)(9) that were finalized on June 15, 2004, the Plan will use the 1987 proposed regulations.
- (b) Requirements of Treasury Regulations incorporated. All distributions required under this Article shall be determined and made in accordance with Code Section 401(a)(9), including the incidental death benefit requirement in Code Section 401(a)(9)(G), and the Treasury Regulations thereunder.
- (c) Precedence. Subject to the joint and survivor annuity requirements of the Plan, the requirements of this Article will take precedence over any inconsistent provisions of the Plan.
- (d) TEFRA Section 242(b)(2) elections.
- (i) Notwithstanding the other provisions of this Article and the Plan, other than the spouse's right of consent afforded under the Plan, distributions may be made on behalf of any Participant, including a five percent (5%) owner, who has made a designation in accordance with Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act ("TEFRA") and in accordance with all of the following requirements (regardless of when such distribution commences):
- (1) The distribution by the Plan is one which would not have disqualified such plan under Code Section 401(a)(9) as in effect prior to amendment by the Deficit Reduction Act of 1984.
 - (2) The distribution is in accordance with a method of distribution designated by the Participant whose interest in the plan is being distributed or, if the Participant is deceased, by a beneficiary of such Participant.

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- (3) Such designation was in writing, was signed by the Participant or beneficiary, and was made before January 1, 1984.
 - (4) The Participant had accrued a benefit under the Plan as of December 31, 1983.
 - (5) The method of distribution designated by the Participant or the beneficiary specifies the time at which distribution will commence, the period over which distributions will be made, and in the case of any distribution upon the Participant's death, the beneficiaries of the Participant listed in order of priority.
- (ii) A distribution upon death will not be covered by the transitional rule of this Subsection unless the information in the designation contains the required information described above with respect to the distributions to be made upon the death of the Participant.
 - (iii) For any distribution which commences before January 1, 1984, but continues after December 31, 1983, the Participant, or the beneficiary, to whom such distribution is being made, will be presumed to have designated the method of distribution under which the distribution is being made if the method of distribution was specified in writing and the distribution satisfies the requirements in (i)(1) and (i)(5) of this Subsection.
 - (iv) If a designation is revoked, any subsequent distribution must satisfy the requirements of Code Section 401(a)(9) and the Treasury Regulations thereunder. If a designation is revoked subsequent to the date distributions are required to begin, the Plan must distribute by the end of the calendar year following the calendar year in which the revocation occurs the total amount not yet distributed which would have been required to have been distributed to satisfy Code Section 401(a)(9) and the regulations thereunder, but for the Section 242(b)(2) election. For calendar years beginning after December 31, 1988, such distributions must meet the minimum distribution incidental benefit requirements. Any changes in the designation will be considered to be a revocation of the designation. However, the mere substitution or addition of another beneficiary (one not named in the designation) under the designation will not be considered to be a revocation of the designation, so long as such substitution or addition does not alter the period over which distributions are to be made under the designation, directly or indirectly (for example, by altering the relevant measuring life).
 - (v) In the case in which an amount is transferred or rolled over from one plan to another plan, the rules in Treasury Regulation Section 1.401(a)(9)-8, Q&A-14 and Q&A-15, shall apply.

- (e) Limits on distribution periods. To the extent otherwise permitted under the terms of the Plan, as of the first Distribution Calendar Year, distributions to a Participant, if not made in a single sum, may only be made over one of the following periods:
 - (i) The life of the Participant;
 - (ii) The joint lives of the Participant and a Designated Beneficiary;
 - (iii) A period certain not extending beyond the Life Expectancy of the Participant; or
 - (iv) A period certain not extending beyond the joint life and last survivor expectancy of the Participant and a Designated Beneficiary.

3.02 Time and Manner of Distribution.

- (a) Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.
- (b) Death of Participant before distributions begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:
 - (i) Life Expectancy rule, spouse is beneficiary. If the Participant's surviving spouse is the Participant's sole Designated Beneficiary, then, except as provided in Section 3.08, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age $70\frac{1}{2}$, if later.
 - (ii) Life Expectancy rule, spouse is not beneficiary. If the Participant's surviving spouse is not the Participant's sole Designated Beneficiary, then, except as provided in Section 3.08, distributions to the Designated Beneficiary will begin by December 31st of the calendar year immediately following the calendar year in which the Participant died.
 - (iii) No Designated Beneficiary, 5-year rule. If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31st of the calendar year containing the fifth anniversary of the Participant's death.
 - (iv) Surviving spouse dies before distributions begin. If the Participant's surviving spouse is the Participant's sole Designated Beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this Section 3.02(b), other than Section 3.02(b)(i), will apply as if the surviving spouse were the Participant.

For purposes of this Section 3.02(b), distributions are considered to begin on the Participant's Required Beginning Date (or, if Section 3.02(b)(iv) applies, the date distributions are required to begin to the surviving spouse under Section 3.02(a)). If annuity payments irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under Section 3.02(b)(i)), the date distributions are considered to begin is the date distributions actually commence.

- (c) Form of distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, distributions will be made in accordance with Sections 3.03, 3.04 and 3.05 as of the first Distribution Calendar Year. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Code Section 401(a)(9) and the Treasury Regulations thereunder. Any part of the Participant's interest which is in the form of an individual account described in Code Section 414(k) will be distributed in a manner satisfying the requirements of Code Section 401(a)(9) and the Treasury Regulations thereunder applicable to individual accounts.

3.03 Determination of Amount to be Distributed Each Year.

- (a) General annuity requirements. A Participant who is required to begin payments as a result of attaining his or her Required Beginning Date, whose interest has not been distributed in the form of an annuity purchased from an insurance company or in a single sum before such date, may receive such payments in the form of annuity payments under the Plan. Payments under such annuity must satisfy the following requirements:
 - (i) The annuity distributions will be paid in periodic payments made at intervals not longer than one year;
 - (ii) The distribution period will be over a life (or lives) or over a period certain not longer than the period described in Section 3.04 or 3.05;
 - (iii) Once payments have begun over a period certain, the period certain will not be changed, even if the period certain is shorter than the maximum period permitted, unless otherwise elected in Section 3.08(d);
 - (iv) Payments will either be non-increasing or increase only to the extent permitted by one or more of the following conditions:
 - (1) By an annual percentage increase that does not exceed the annual percentage increase in an Eligible Cost-of-Living Index for a 12-month period ending in the year during which the increase occurs or the prior year;

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- (2) By a percentage increase that occurs at specified times (e.g., at specified ages) and does not exceed the cumulative total of annual percentage increases in an Eligible Cost-of-Living Index since the annuity starting date, or if later, the date of the most recent percentage increase. In cases providing such a cumulative increase, an actuarial increase may not be provided to reflect the fact that increases were not provided in the interim years;
 - (3) To the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit upon death, but only if the beneficiary whose life was being used to determine the distribution period described in Section 3.04 dies or is no longer the Participant's beneficiary pursuant to a qualified domestic relations order within the meaning of Code Section 414(p);
 - (4) To allow a beneficiary to convert the survivor portion of a joint and survivor annuity into a single sum distribution upon the Participant's death;
 - (5) To pay increased benefits that result from a Plan amendment or other increase in the Participant's accrued benefit under the Plan;
 - (6) By a constant percentage, applied not less frequently than annually, at a rate that is less than 5 percent per year;
 - (7) To provide a final payment upon the death of the Participant that does not exceed the excess of the actuarial present value of the Participant's accrued benefit (within the meaning of Code Section 411(a)(7)) calculated as of the annuity starting date using the applicable interest rate and the applicable mortality table under Code Section 417(e) (or, if greater, the total amount of employee contributions) over the total of payments before the death of the Participant; or
 - (8) As a result of dividend or other payments that result from Actuarial Gains, provided:
 - (I) Actuarial Gain is measured not less frequently than annually;
 - (II) The resulting dividend or other payments are either paid no later than the year following the year for which the actuarial experience is measured or paid in the same form as the payment of the annuity over the remaining period of the annuity (beginning no later than the year following the year for which the actuarial experience is measured);

- (III) The Actuarial Gain taken into account is limited to actuarial gain from investment experience;
- (IV) The assumed interest rate used to calculate such Actuarial Gains is not less than 3 percent; and
- (V) The annuity payments are not also being increased by a constant percentage as described in Section 3.03(a)(iv)(6) above.

(b) Amount required to be distributed by Required Beginning Date.

- (i) In the case of a Participant whose interest in the Plan is being distributed as an annuity pursuant to Section 3.03(a), the amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Section 3.02(b)(i) or 3.02(b)(ii)) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, *e.g.*, bi-monthly, monthly, semi-annually, or annually. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.
- (ii) In the case of a single sum distribution of a Participant's entire accrued benefit during a Distribution Calendar Year, the amount that is the required minimum distribution for the Distribution Calendar Year (and thus not eligible for rollover under Code Section 402(c)) is determined under this Section 3.03(b)(ii). The portion of the single sum distribution that is a required minimum distribution is determined by treating the single sum distribution as a distribution from an individual account Plan and treating the amount of the single sum distribution as the Participant's account balance as of the end of the relevant valuation calendar year. If the single sum distribution is being made in the calendar year containing the Required Beginning Date and the required minimum distribution for the Participant's first Distribution Calendar Year has not been distributed, the portion of the single sum distribution that represents the required minimum distribution for the Participant's first and second Distribution Calendar Years is not eligible for rollover.

(c) Additional accruals after first Distribution Calendar Year. Any additional benefits accruing to the Participant in a calendar year after the first Distribution

Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such amount accrues. Notwithstanding the preceding, the Plan will not fail to satisfy the requirements of this Section 3.03(c) and Code Section 401(a)(9) merely because there is an administrative delay in the commencement of the distribution of the additional benefits accrued in a calendar year, provided that the actual payment of such amount commences as soon as practicable. However, payment must commence no later than the end of the first calendar year following the calendar year in which the additional benefit accrues, and the total amount paid during such first calendar year must be no less than the total amount that was required to be paid during that year under this Section 3.03(c).

- (d) Death after distributions begin. If a Participant dies after distribution of the Participant's interest begins in the form of an annuity meeting the requirements of this Article, then the remaining portion of the Participant's interest will continue to be distributed over the remaining period over which distributions commenced.

3.04 Requirements for Annuity Distributions That Commence During Participant's Lifetime.

- (a) Joint life annuities where the beneficiary is the Participant's spouse. If distributions commence under a distribution option that is in the form of a joint and survivor annuity for the joint lives of the Participant and the Participant's spouse, the minimum distribution incidental benefit requirement will not be satisfied as of the date distributions commence unless, under the distribution option, the periodic annuity payment payable to the survivor does not at any time on and after the Participant's Required Beginning Date exceed the annuity payable to the Participant. In the case of an annuity that provides for increasing payments, the requirement of this Section 3.04(a) will not be violated merely because benefit payments to the beneficiary increase, provided the increase is determined in the same manner for the Participant and the beneficiary. If the form of distribution combines a joint and survivor annuity for the joint lives of the Participant and the Participant's spouse and a period certain annuity, the preceding requirements will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.
- (b) Joint life annuities where the beneficiary is not the Participant's spouse. If distributions commence under a distribution option that is in the form of a joint and survivor annuity for the joint lives of the Participant and a beneficiary other than the Participant's spouse, the minimum distribution incidental benefit requirement will not be satisfied as of the date distributions commence unless under the distribution option, the annuity payments to be made on and after the Participant's Required Beginning Date will satisfy the conditions of this Section 3.04(b). The periodic annuity payment payable to the survivor must not at any time on and after the Participant's Required Beginning Date exceed the applicable percentage of the annuity payment payable to the Participant using the table set forth in Q&A-2(c)(2) of section 1.401(a)(9)-6 of the Treasury regulations. The applicable percentage is based on the adjusted Participant/beneficiary age

difference. The adjusted Participant/beneficiary age difference is determined by first calculating the excess of the age of the Participant over the age of the beneficiary based on their ages on their birthdays in a calendar year. If the Participant is younger than age 70, the age difference determined in the previous sentence is reduced by the number of years that the Participant is younger than age 70 on the Participant's birthday in the calendar year that contains the annuity starting date. In the case of an annuity that provides for increasing payments, the requirement of this Section 3.04(b) will not be violated merely because benefit payments to the beneficiary increase, provided the increase is determined in the same manner for the Participant and the beneficiary. If the form of distribution combines a joint and survivor annuity for the joint lives of the Participant and a non-spouse beneficiary and a period certain annuity, the preceding requirements will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.

- (c) Period certain annuities. Unless the Participant's spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations for the calendar year that contains the annuity starting date. If the annuity starting date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the annuity starting date. If the Participant's spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Section 3.04(c), or the joint life and last survivor expectancy of the Participant and the Participant's spouse as determined under the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the calendar year that contains the annuity starting date.

3.05 Requirements for Minimum Distributions Where Participant Dies Before Date Distributions Begin.

- (a) Participant survived by Designated Beneficiary. Except as provided in Section 3.08, if the Participant dies before the date distribution of his or her interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described in Section 3.02(b)(i) or Section 3.02(b)(ii), over the life of the Designated Beneficiary or over a period certain not exceeding:

- (i) Unless the annuity starting date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death; or
 - (ii) If the annuity starting date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year that contains the annuity starting date.
- (b) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
- (c) Death of surviving spouse before distributions to surviving spouse begin. If the Participant dies before the date distribution of his or her interest begins, the Participant's surviving spouse is the Participant's sole Designated Beneficiary, and the surviving spouse dies before distributions to the surviving spouse begin, this Section 3.05 will apply as if the surviving spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Section 3.02(b)(i).

3.06 Definitions.

- (a) Actuarial Gain. “ **Actuarial Gain** ” means the difference between an amount determined using the actuarial assumptions (*i.e.* , investment return, mortality, expense, and other similar assumptions) used to calculate the initial payments before adjustment for any increases and the amount determined under the actual experience with respect to those factors. Actuarial Gain also includes differences between the amount determined using actuarial assumptions when an annuity was purchased or commenced and such amount determined using actuarial assumptions used in calculating payments at the time the Actuarial Gain is determined.
- (b) Designated Beneficiary. “ **Designated Beneficiary** ” means the individual who is designated as the beneficiary under the Plan and is the Designated Beneficiary under Code Section 401(a)(9) and section 1.401(a)(9)-4, Q&A-1, of the Treasury Regulations.
- (c) Distribution Calendar Year. “ **Distribution Calendar Year** ” means a calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year that contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Section 3.02(b).

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- (d) Eligible Cost-of-Living Index. An “ **Eligible Cost-of-Living Index** ” means an index described below:
- (i) A consumer price index that is based on prices of all items (or all items excluding food and energy) and issued by the Bureau of Labor Statistics, including an index for a specific population (such as urban consumers or urban wage earners and clerical workers) and an index for a geographic area or areas (such as a given metropolitan area or state); or
 - (ii) A percentage adjustment based on a cost-of-living index described in Section (a) above, or a fixed percentage, if less. In any year when the cost-of-living index is lower than the fixed percentage, the fixed percentage may be treated as an increase in an Eligible Cost-of-Living Index, provided it does not exceed the sum of:
 - (1) The cost-of-living index for that year, and
 - (2) The accumulated excess of the annual cost-of-living index from each prior year over the fixed annual percentage used in that year (reduced by any amount previously utilized under this Section 3.06(d)(ii)).
- (e) Life Expectancy. “ **Life Expectancy** ” means the life expectancy as computed by use of the Single Life Table in section 1.401(a)(9)-9 of the Treasury Regulations.
- (f) Required Beginning Date. Except as otherwise provided in the Plan, the “ **Required Beginning Date** ” means the April 1st of the calendar year following the later of the calendar year in which the Participant attains age 70 ¹/₂, or the calendar year in which the Participant retires, except that benefit distributions to a “5-percent owner” must commence by April 1 of the calendar year following the calendar year in which the Participant attains age 70 ¹/₂. Once distributions have begun to a “5-percent owner” under this Article II, they must continue to be distributed, even if the Participant ceases to be a “5-percent owner” in a subsequent Plan Year.
- “ **5-percent owner** ” means a Participant who is a 5-percent owner as defined in Code Section 416 at any time during the Plan Year ending with or within the calendar year in which such owner attains age 70 ¹/₂. Once required minimum distributions have begun to a 5-percent owner, they must continue to be distributed, even if the Participant ceases to be a 5-percent owner in a subsequent year.

**ARTICLE IV
LIMITATIONS ON BENEFITS**

The limitations of Sections 4.01 through 4.05 shall be subject to those of Section 4.06 which shall apply in Limitation Years beginning on or after July 1, 2007, except as otherwise provided therein.

4.01 General Limitations. This Section applies regardless of whether any Participant is or has ever been a participant in another qualified plan maintained by the Employer. If any Participant is or has ever been a participant in another qualified plan, or a welfare benefit fund (as defined in Code Section 419(e)), an individual medical account (as defined in Code Section 415(1)(2)), or a simplified employee pension (as defined in Code Section 408(k)) maintained by the Employer, which provides an Annual Addition as defined in Section 4.05(a), Section 4.02 is also applicable to that Participant's benefits.

- (a) The Annual Benefit otherwise payable to a Participant at any time will not exceed the Maximum Permissible Benefit. If the benefit the Participant would otherwise accrue in a Limitation Year would produce an Annual Benefit in excess of the Maximum Permissible Benefit, the benefit must be limited (or the rate of accrual reduced) so that the Annual Benefit does not exceed the Maximum Permissible Benefit.
- (b) If a Participant has made voluntary employee contributions, or mandatory employee contributions as defined in Code Section 411(c)(2)(C) under the terms of this Plan, the amount of such contributions is treated as an Annual Addition to a qualified defined contribution plan, for purposes of Sections 4.01(a) and 4.01(b) of this Article.

4.02 Additional General Limitations. This Section applies if any Participant is also a participant, or has ever participated in another plan maintained by the Employer, including a qualified plan, a welfare benefit fund maintained by the Employer (as defined in Code Section 419(e)) under which amounts attributable to post-retirement medical benefits are allocated to separate accounts of Key Employees (as defined in Code Section 419(A)(d)(3)), an individual medical account, or a simplified employee pension that provides an annual addition as described in Section 4.05(a).

- (a) If a Participant is, or has ever been, a participant covered under more than one defined benefit plan maintained by the Employer, the sum of the Participant's Annual Benefits from all such plans may not exceed the Maximum Permissible Benefit. If a Participant is or has ever been a participant in more than one defined benefit Plan maintained by an Employer, the rate of accrual in this Plan will be reduced so that the total Annual Benefits payable at any time under such plans will not exceed the Maximum Permissible Benefit.
- (b) For Limitation Years beginning before January 1, 2000, if the Employer maintains, or ever maintained, one or more qualified defined contribution plans covering any Participant in this Plan, a welfare benefit fund (as defined in Code

Section 419(e)), an individual medical account (as defined in Code Section 415(1)(2)), or a simplified employee pension (as defined in Code Section 408(k)), the sum of the Participant's Defined Contribution Fraction and Defined Benefit Fraction (the "**Combined Limit**") will not exceed 1.0 in any Limitation Year. In the event that a Participant's Combined Limit would otherwise be exceeded for a Limitation Year, shall be reduced, to the extent necessary, such that such accrual plus the Annual Additions credited to any such Participant's account for the Limitation Year under the defined contribution plan, welfare benefit fund, individual medical account or simplified employee pension will not exceed the Combined Limit.

4.03 Limitation Year beginning after December 31, 1986. In the case of an individual who was a participant in one or more defined benefit plans of the Employer as of the first day of the first Limitation Year beginning after December 31, 1986, the application of the limitations of this Article shall not cause the Maximum Permissible Benefit for such individual under all such defined benefit plans to be less than the individual's current Accrued Benefit. The preceding sentence applies only if all such defined benefit plans met the requirements of Code Section 415 for all Limitation Years beginning before January 1, 1987.

4.04 Limitation Year beginning after December 31, 1994. In the case of an individual who was a participant in one or more defined benefit plans of the Employer as of the first day of the first Limitation Year beginning after December 31, 1994, the application of the limitations of this Article shall not cause the Maximum Permissible Amount for such individual under all such defined benefit plans to be less than the individual's Retirement Protection Act of 1994 ("**RPA '94**") old law benefit. The preceding sentence applies only if all such defined benefit plans met the requirements of Code Section 415 on December 7, 1994.

4.05 Definitions.

(a) Annual Additions. The sum of the following amounts credited to a Participant's account for the Limitation Year:

- (i) Employer contributions;
- (ii) Employee contributions;
- (iii) Allocations under a simplified employee pension;
- (iv) Forfeitures; and
- (v) Amounts allocated after March 31, 1984, to an individual medical account that is part of a pension or annuity plan maintained by the Employer, are treated as Annual Additions to a defined contribution plan. Also, amounts derived from contributions paid or accrued after December 31, 1985, in taxable years ending after such date, which are attributable to post-retirement medical benefits allocated to the separate account of a Key Employee, as defined in Section 419A(d)(3), under a welfare benefit fund, as defined in Code Section 419(e), maintained by the Employer, are treated as Annual Additions to a defined contribution plan.

- (b) Annual Benefit. A retirement benefit under the Plan which is payable annually in the form of a straight life annuity. A benefit which is payable in a form other than a straight life annuity must be adjusted to an actuarially equivalent straight life annuity before applying the limitations of this Article. In the case of a “**GATT Benefit**” (which for this purpose is any benefit unless it is paid in the form of a non-decreasing annuity payable over a period not less than the life of the Participant) or a “**Non-GATT Benefit**” (which for this purpose is any benefit other than a GATT Benefit), the actuarial equivalent straight life annuity commencing as of the benefit commencement date of such GATT Benefit or Non-GATT Benefit is the greater of (i) the equivalent annual life annuity determined by using the interest rate and mortality table in Section 2.02 in Part I of the Plan (the definition of the term “Actuarial Equivalent”) for the purposes of Part I of the Plan and Section 2.02 in Part II of the Plan (the definition of the term “Actuarial Equivalent”) for the purposes of Part II of the Plan; and (ii) the equivalent annual life annuity determined by using the combination of (A) a 5% interest rate in the case of a Non-GATT Benefit or the Code Section 417 Interest Rate in the case of a GATT Benefit; and (B) the Code Section 417 Mortality Table. The portion of the actuarial equivalent straight life annuity attributable to the GATT Benefit is the GATT percentage and the portion of the actuarial equivalent straight life annuity attributable to the Non-GATT Benefit is the Non-GATT Percentage. The Annual Benefit does not include any benefits attributable to Employee contributions or rollover contributions, or the assets transferred from a qualified plan that was not maintained by the Employer. No actuarial adjustment to the benefit is required for (i) the value of a Qualified Joint and Survivor Annuity, (ii) the value of benefits that are not directly related to retirement benefits (such as the qualified disability benefit, pre-retirement death benefits, and post-retirement medical benefits), and (iii) the value of post-retirement cost-of-living increases made in accordance with Code Section 415(d) and Treasury Regulation Section 1.415(c)(2)(iii).
- (c) Defined Benefit Dollar Limitation. \$90,000. Effective on January 1 of each year, the \$90,000 limitation above will be automatically adjusted by multiplying such limit by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Code Section 415(d) in such manner as the Secretary shall prescribe. The new limitation will apply to Limitation Years ending within the calendar year of the date of the adjustment.

Notwithstanding the foregoing, effective for Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation is \$160,000, as adjusted effective January 1 of each year under Section 415(d) of the Code in such manner as the Secretary shall prescribe, and payable in the form of a straight life annuity. A limitation as adjusted under Code Section 415(d) will apply to Limitation Years ending with or within the calendar year for which the adjustment applies.

- (d) Defined Benefit Fraction. A fraction, the numerator of which is the sum of the Participant's Projected Annual Benefits under all the defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of 125 percent of the dollar limitation determined for the Limitation Year under Code Section 415(b)(1)(A) and (d) or 140 percent of the Highest Average Compensation, including any adjustments under Code Section 415(b)(5), both in accordance with paragraph (h) below.

Notwithstanding the above, if the Participant was a participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 125 percent of the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 for all Limitation Years beginning before January 1, 1987.

Notwithstanding the foregoing, for Limitation Years beginning before January 1, 2000, for any Top Heavy Plan Year, 100 percent shall be substituted for 125 percent unless an extra minimum benefit or contribution is credited pursuant to Section 2.03(b) of Part III of the Plan. However, for any such Plan Year in which this Plan is a super top heavy plan, 100 percent shall be substituted for 125 percent in any event.

- (e) Defined Contribution Fraction. A fraction, the numerator of which is the sum of the Annual Additions to the Participant's account under all the defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years, (including the Annual Additions attributable to the Participant's nondeductible employee contributions to this and all other defined benefit plans (whether or not terminated) maintained by the Employer, and the Annual Additions attributable to all welfare benefit funds (as defined in Code Section 419(e)), individual medical accounts (as defined in Code Section 415(1)(2)), or simplified employee pensions (as defined in Code Section 408(k)), maintained by the Employer, and the denominator of which is the sum of the maximum aggregate amounts for the current and all prior Limitation Years of service with the Employer (regardless of whether a defined contribution plan was maintained by the Employer).

The maximum aggregate amount in any Limitation Year is the lesser of (1) 125 percent of the dollar limitation under Code Section 415(c)(1)(A) after adjustment under Section 415(d), or (2) 35 percent of the Participant's Compensation for such year.

If the Employee was a participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans

maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this plan. Under the adjustment, an amount equal to the product of (i) the excess of the sum of the fractions over 1.0 times (ii) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the plans made after May 6, 1986, but using the Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

The annual addition for any Limitation Year beginning before January 1, 1987 shall not be recomputed to treat all employee contributions as Annual Additions.

Notwithstanding the foregoing, for Limitation Years beginning before January 1, 2000, for any Top Heavy Plan Year, 100 percent shall be substituted for 125 percent unless an extra minimum allocation is made pursuant to Section 2.03(b) of Part III of the Plan. However, for any such Plan Year in which this Plan is a super top heavy plan, 100 percent shall be substituted for 125 percent in any event.

- (f) Employer . For purposes of this Article, Employer shall mean the employer that adopt this Plan and all members of a controlled group of corporations (as defined in Code Section 414(b) as modified by Code Section 415(h), all trades or businesses under common control (as defined in Code Section 414(c) as modified by code Section 415(h), or all members of an affiliated service group (as defined in Code Section 414(m) of which the adopting Employer is a part, and any other entity required to be aggregated with the Employer pursuant to Regulations under Code Section 414(o).
- (g) Highest Average Compensation . The average Compensation for the three consecutive years of service with the Employer that produces the highest average. A year of service with the Employer is the 12-consecutive month period defined in Section 2.44 of Part I of the Plan (the definition of the term, "Year of Service").

In the case of a Participant who has separated from service, the Participant's Highest Average Compensation will be automatically adjusted by multiplying such compensation by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Code Section 415(d) in such manner as the Secretary shall prescribe. The adjusted compensation amount will apply to Limitation Years ending within the calendar year of the date of the adjustment.

- (h) Maximum Permissible Benefit .
 - (i) The lesser of the Defined Benefit Dollar Limitation or 100 percent of the Participant's Highest Average Compensation.

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- (ii) If the Participant has less than 10 years of participation in the Plan, the Defined Benefit Dollar Limitation is reduced by one-tenth for each year of participation (or part thereof) less than ten.
 - (iii) If the Participant has less than ten years of service with the Employer, the Compensation limitation is reduced by one-tenth for each Year of Service (or part thereof) less than ten. The adjustments of this paragraph (iii) shall be applied in the denominator of the Defined Benefit Fraction based upon Years of Service. For purposes of computing the Defined Benefit Fraction only, Years of Service shall include future years of service occurring before the Participant's Normal Retirement Age. Such future years of service shall include the year that contains the date the Participant reaches Normal Retirement Age, only if it can be reasonably anticipated that the Participant will receive a Year of Service for such year, or the year in which the Participant terminates employment, if earlier.
 - (iv) If the Annual Benefit of the Participant commences before the Participant's Social Security Retirement Age, but on or after Age 62, the Defined Benefit Dollar Limitation as reduced above, if necessary, shall be determined as follows:
 - (A) If a Participant's Social Security Retirement Age is 65, the Dollar Limitation for benefits commencing on or after Age 62 is determined by reducing the Defined Benefit Dollar Limitation by 5/9 of one percent for each month by which benefits commence before the month in which the Participant attains Age 65.
 - (B) If a Participant's Social Security Retirement Age is greater than 65, the Dollar Limitation for benefits commencing on or after Age 62 is determined by reducing the Defined Benefit Dollar Limitation by 5/9 of one percent for each of the first 36 months and 5/12 of one percent for each of the additional months (up to 24 months) by which benefits commence before the month of the Participant's Social Security Retirement Age.
 - (v) If the Annual Benefit of a Participant commences prior to Age 62, the Defined Benefit Dollar Limitation shall be the actuarial equivalent of an Annual Benefit beginning at Age 62, as determined above, reduced for each month by which benefits commence before the month in which the Participant attains Age 62. The reduced dollar limitation is the sum of the Non-GATT Limitation and the GATT Limitation. For purposes of the immediately preceding sentence, the Non-GATT Limitation is the product of the Non-GATT Percentage and the lesser of the equivalent early retirement dollar amount computed as described in Section 6.02 of Part I of the Plan (Early Retirement Benefit) or in Section 5.02 of Part II of the Plan (Early Retirement Benefit) and the amount computed using an interest rate of 5% and the Code Section 417 Mortality Table in Section

2.02 in Part I of the Plan (the definition of the term “Actuarial Equivalent” for the purposes of Part I of the Plan) or Section 2.02 in Part II of the Plan (the definition of the term “Actuarial Equivalent” for the purposes of Part II of the Plan); and the GATT Limitation is the product of the GATT Percentage (as described in Section 4.05(b) of Part III of the Plan) and the lesser of the equivalent early retirement dollar amount computed as in described in Section 6.02 of Part I of the Plan (Early Retirement Benefit) or in Section 5.02 of Part II of the Plan (Early Retirement Benefit) and the amount computed using an interest rate of 5% and the Code Section 417 Mortality Table (as described in Section 2.02 in Part I of the Plan (the definition of the term “Actuarial Equivalent” for the purposes of Part I of the Plan) or Section 2.02 in Part II of the Plan (the definition of the term “Actuarial Equivalent” for the purposes of Part II of the Plan); and the GATT Limitation is the product of the GATT Percentage (as described in Section 4.05(b) of Part III of the Plan) and the lesser of the equivalent early retirement dollar amount computed as described in Section 6.02 of Part I of the Plan (Early Retirement Benefit) or in Section 5.02 of Part II of the Plan (Early Retirement Benefit) and the amount computed using the Code Section 417 Interest Rate and the Code Section 417 Mortality Table. Any decrease in the Defined Benefit Dollar Limitation determined in accordance with this Paragraph (iv) shall not reflect the mortality decrement to the extent that benefits will not be forfeited upon the death of the Participant.

- (vi) If the Annual Benefit of a Participant commences after the Participant’s Social Security Retirement Age, the Defined Benefit Dollar Limitation as reduced in (ii) above, if necessary, shall be adjusted so that it is the actuarial equivalent of an annual benefit of such Dollar Limitation beginning at the Participant’s Social Security Retirement Age. The increased dollar limitation is the lesser of the equivalent dollar amount computed using the interest rate and mortality table used for actuarial equivalence set forth in Part I of the Plan (the definition of the term “Actuarial Equivalent” for the purposes of Part I of the Plan) or Section 2.02 in Part II of the Plan (the definition of the term “Actuarial Equivalent” for the purposes of Part II of the Plan) and the amount computed using an interest rate of 5 percent and the Code Section 417 Mortality Table (as described in Part I of the Plan (the definition of the term “Actuarial Equivalent” for the purposes of Part I of the Plan) or Section 2.02 in Part II of the Plan (the definition of the term “Actuarial Equivalent” for the purposes of Part II of the Plan)).
- (i) Projected Annual Benefit. The Annual Benefit, as defined in Section 4.05(b) of this Article, to which the Participant would be entitled under the terms of the Plan assuming:
 - (i) the Participant will continue employment until Normal Retirement Age under the Plan (or current Age, if later); and

- (ii) the Participant's Compensation for the current Limitation Year and all other relevant factors used to determine benefits under the Plan will remain constant for all future Limitation Years.
- (j) **RPA '94 Old Law Benefit.** The Participant's Accrued Benefit under the terms of the plan as of December 31, 1996, (the "**RPA '94 freeze date**"), for the annuity starting date and optional form and taking into account the limitations of Code Section 415, as in effect on December 7, 1994, including the participation requirements under Code Section 415(b)(5). In determining the amount of a Participant's RPA '94 old law benefit, the following shall be disregarded:
 - (i) any Plan amendment increasing benefits adopted after the RPA '94 freeze date; and
 - (ii) any cost of living adjustments that become effective after such date.A Participant's RPA '94 old law benefit is not increased after the RPA '94 freeze date, but if the limitations of Code Section 415, as in effect on December 7, 1994, are less than the limitations that were applied to determine the Participant's RPA '94 old law benefit on the RPA '94 freeze date, then the Participant's RPA '94 old law benefit will be reduced in accordance with such reduced limitation. If, at any date after the RPA '94 freeze date, the Participant's total plan benefit, before the application of Code Section 415, is less than the Participant's RPA '94 old law benefit, the RPA '94 old law benefit will be reduced to the Participant's total plan benefit.
- (k) **Social Security Retirement Age.** Age 65 in the case of a Participant attaining Age 62 before January 1, 2000 (i.e., born before January 1, 1938), Age 66 for a Participant attaining age 62 after December 31, 1999, and before January 1, 2017 (i.e., born after December 31, 1937, but before January 1, 1955), and Age 67 for a participant attaining Age 62 after December 31, 2016 (i.e., born after December 31, 1954).
- (l) **TRA '86 Accrued Benefit.** A Participant's Accrued Benefit under the Plan, determined as if the Participant had separated from service as of the close of the last Limitation Year beginning before January 1, 1987, when expressed as an annual benefit within the meaning of Code Section 415(b)(2). In determining the amount of a Participant's TRA '86 Accrued Benefit, the following shall be disregarded:
 - (i) any change in the terms and conditions of the Plan after May 5, 1986; and
 - (ii) any cost of living adjustments occurring after May 5, 1986.
- (m) **Year of Participation.** The Participant shall be credited with a year of participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (i) The Participant is credited with at least the number of Hours of Service for benefit accrual purposes, required

under the terms of the Plan in order to accrue a benefit for the accrual computation period, and (ii) the Participant is included as a Participant under the eligibility provisions of the plan for at least one day of the accrual computation period. If these two conditions are met, the portion of a year of participation credited to the Participant shall equal the amount of benefit accrual service credited to the Participant for such accrual computation period.

- 4.06 Final Section 415 Regulations. Effective Date. The limitations of this Section shall apply in Limitation Years beginning on or after July 1, 2007, except as otherwise provided herein.
- (b) Grandfather Provision. The application of the provisions of this Section shall not cause the maximum permissible benefit for any Participant to be less than the Participant's accrued benefit under all the defined benefit plans of the employer or a predecessor employer as of the end of the last Limitation Year beginning before July 1, 2007 under provisions of the plans that were both adopted and in effect before April 5, 2007. The preceding sentence applies only if the provisions of such defined benefit plans that were both adopted and in effect before April 5, 2007 satisfied the applicable requirements of statutory provisions, regulations, and other published guidance relating to Code Section 415 in effect as of the end of the last Limitation Year beginning before July 1, 2007, as described in Section 1.415(a)-1(g)(4) of the Treasury Regulations.
 - (c) Incorporation by Reference. Notwithstanding anything contained in the Plan to the contrary, the limitations, adjustments, and other requirements prescribed in the Plan shall comply with the provisions of Code Section 415 and the final regulations promulgated thereunder, the terms of which are specifically incorporated herein by reference as of the first Limitation Year beginning on or after July 1, 2007, except where an earlier effective date is otherwise provided in the final regulations or in this Section. However, where the final regulations permit the Plan to specify an alternative option to a default option set forth in the regulations, and the alternative option was available under statutory provisions, regulations, and other published guidance relating to Code Section 415 as in effect prior to April 5, 2007, and the Plan provisions in effect as of April 5, 2007 incorporated the alternative option, said alternative option shall remain in effect as a plan provision for Limitation Years beginning on or after July 1, 2007.
 - (d) High Three-Year Average Compensation. For purposes of the Plan's provisions reflecting Code Section 415(b)(3) (i.e., limiting the annual benefit payable to no more than 100% of the Participant's average annual compensation), a Participant's average compensation shall be the average compensation for the three consecutive years of service, during which the Employee had the greatest aggregate compensation from the Employer, except that a Participant's compensation for a year of service shall not include compensation in excess of the limitation under Code Section 401(a)(17) that is in effect for the calendar year in which such year of service begins. If the Participant has less than three consecutive years of service, compensation shall be averaged over the

Participant's longest consecutive period of service, including fractions of years, but not less than one year. In the case of a Participant who is rehired by the Employer after a severance of employment, the Participant's high three-year average compensation shall be calculated by excluding all years for which the Participant performs no services for and receives no compensation from the Employer (the "break period"), and by treating the years immediately preceding and following the break period as consecutive.

- (e) Adjustment to dollar limit after date of severance. In the case of a Participant who has had a severance from employment with the Employer, the Defined Benefit Dollar Limitation applicable to the Participant in any Limitation Year beginning after the date of severance shall be automatically adjusted under Code Section 415(d).
- (f) Compensation paid after severance from employment. For Limitation Years beginning on or after July 1, 2007 compensation for a Limitation Year, within the meaning of Code Section 415(c)(3), shall also include the following types of compensation paid by the later of 2 1/2 months after a Participant's severance from employment with the employer maintaining the plan or the end of the Limitation Year that includes the date of the Participant's severance from employment with the employer maintaining the plan. Any other payment of compensation paid after severance of employment that is not described in the following types of compensation is not considered compensation within the meaning of Code Section 415(c)(3), even if payment is made within the time period specified above.
 - (i) Regular pay after severance from employment. Compensation shall include regular pay after severance of employment if:
 - (1) The payment is regular compensation for services during the Participant's regular working hours, or compensation for services outside the Participant's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments; and
 - (2) The payment would have been paid to the Participant prior to a severance from employment if the Participant had continued in employment with the employer.
 - (ii) Leave cashouts and deferred compensation. Leave cashouts and deferred compensation shall be included in compensation, if those amounts would have been included in the definition of compensation if they were paid prior to the Participant's severance from employment with the Employer maintaining the Plan, and the amounts are either:
 - (1) Payment for unused accrued bona fide sick, vacation, or other leave, but only if the Participant would have been able to use the leave if employment had continued; or

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- (2) Received pursuant to a nonqualified unfunded deferred compensation plan, but only if the payment would have been paid to the if the Participant had continued in employment with the employer and only to the extent that the payment is includible in the Participant's gross income.
- (iii) Salary continuation payments for military service Participants. Compensation does not include payments to an individual who does not currently perform services for the employer by reason of qualified military service (as that term is used in Code Section 414(u)(1)) to the extent those payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service. Notwithstanding the foregoing, for Plan Years beginning after December 31, 2008, a differential wage payment, as defined by Code Section 3401(h)(2), shall be treated as compensation, for purposes of Code Section 415(c)(3) and Treasury Regulation Section 1.415(c)-2, as provided Section 11.02 of Part III of the Plan.
- (iv) Salary continuation payments for disabled Participants. Compensation does not include compensation paid to a Participant who is permanently and totally disabled (as defined in Code Section 22(e)(3)) if the Participant is not a highly compensated employee (as defined in Code Section 414(q)) immediately before becoming disabled, or to all Participants if the Plan provides for the continuation of compensation on behalf of all Participants who are permanently and totally disabled for a fixed or determinable period.
- (g) Administrative delay. Compensation for a Limitation Year shall not include amounts earned but not paid during the Limitation Year solely because of the timing of pay periods and pay dates, provided the amounts are paid during the first few weeks of the next Limitation Year, the amounts are included on a uniform and consistent basis with respect to all similarly situation Participants, and no compensation is included in more than one Limitation Year.
- (h) Option to apply compensation provisions early. The rules in Sections 4.6(g) shall apply for Limitation Years beginning on or after July 1, 2007.

ARTICLE V
PRE-TERMINATION BENEFIT RESTRICTIONS

5.01 In General. In the event of Plan termination, the benefit of any Highly Compensated Employee is limited to a benefit that is nondiscriminatory under Code Section 401(a)(4).

Benefits distributed to any of the 25 most Highly Compensated Employees shall be restricted such that the annual payments shall be no greater than an amount equal to the payment that would be made on behalf of the Employee under a single life annuity that is the Actuarial Equivalent of the sum of the Employee's Accrued Benefit and the Employee's other benefits under the Plan.

5.02 Exceptions. Section 5.01 shall not apply if: (i) after payment of the benefit to an Employee described in the preceding Section, the value of Plan assets equals or exceeds 110% of the value of current liabilities, as defined in Code Section 412(l)(7); or (ii) the value of the benefits for an Employee described above is less than 1% of the value of current liabilities.

5.03 Included Benefits. For purposes of this Article, benefits include any periodic income, any withdrawal values payable to a living Employee, and any death benefits not provided for by insurance on the Employee's life.

ARTICLE V I BENEFIT RESTRICTIONS

6.01 Effective Date and Application of Section.

- (i) Effective Date. The provisions of this Section apply to Plan Years beginning after December 31, 2007.
- (ii) Notwithstanding anything in this Section to the contrary, the provisions of Code Section 436 and the Regulations thereunder are incorporated herein by reference.
- (iii) For Plans that have a valuation date other than the first day of the Plan Year, the provisions of Code Section 436 and this Article will be applied in accordance with Regulations.

6.02 Funding-Based Limitation on Shutdown Benefits and Other Unpredictable Contingent Event Benefits.

- (i) In general. If a Participant is entitled to an "unpredictable contingent event benefit" payable with respect to any event occurring during any Plan Year, then such benefit may not be provided if the "adjusted funding target attainment percentage" for such Plan Year (A) is less than sixty percent (60%) or, (B) would be less than sixty percent (60%) percent taking into account such occurrence.
- (ii) Exemption. Paragraph (i) shall cease to apply with respect to any Plan Year, effective as of the first day of the Plan Year, upon payment by the Employer of a contribution (in addition to any minimum required contribution under Code Section 430) equal to:
 - (A) in the case of 5.02(i)(A) above, the amount of the increase in the funding target of the Plan (under Code Section 430) for the Plan Year attributable to the occurrence referred to in paragraph (i), and

- (B) in the case of 5.02(i)(B) above, the amount sufficient to result in an “adjusted funding target attainment percentage” of sixty percent (60%).
- (iii) Unpredictable contingent event benefit. For purposes of this subsection, the term “ **unpredictable contingent event benefit** ” means any benefit payable solely by reason of:
 - (A) a plant shutdown (or similar event, as determined by the Secretary of the Treasury), or
 - (B) an event other than the attainment of any age, performance of any service, receipt or derivation of any compensation, or occurrence of death or disability.

6.03 Limitations on Plan Amendments Increasing Liability for Benefits.

- (i) In general. No amendment which has the effect of increasing liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable may take effect during any Plan Year if the “adjusted funding target attainment percentage” for such Plan Year is:
 - (A) less than eighty percent (80%), or
 - (B) would be less than eighty percent (80%) taking into account such amendment.
- (ii) Exemption. Paragraph 5.03(i) above shall cease to apply with respect to any Plan Year, effective as of the first day of the Plan Year (or if later, the effective date of the amendment), upon payment by the Employer of a contribution (in addition to any minimum required contribution under Code Section 430) equal to -
 - (A) in the case of paragraph 5.03(i)(A) above, the amount of the increase in the funding target of the Plan (under Code Section 430) for the Plan Year attributable to the amendment, and
 - (B) in the case of paragraph 5.03(i)(B) above, the amount sufficient to result in an “adjusted funding target attainment percentage” of eighty percent (80%).
- (iii) Exception for certain benefit increases. Paragraph (i) shall not apply to any amendment which provides for an increase in benefits under a formula

which is not based on a Participant's compensation, but only if the rate of such increase is not in excess of the contemporaneous rate of increase in average wages of Participants covered by the amendment.

6.04 Limitations on Accelerated Benefit Distributions.

- (i) Funding percentage less than sixty percent (60%). If the Plan's "adjusted funding target attainment percentage" for a Plan Year is less than sixty percent (60%), then the Plan may not pay any "prohibited payment" after the valuation date for the Plan Year.
- (ii) Bankruptcy. During any period in which the Employer is a debtor in a case under title 11, United States Code, or similar Federal or State law, the Plan may not pay any "prohibited payment." The preceding sentence shall not apply on or after the date on which the enrolled actuary of the Plan certifies that the "adjusted funding target attainment percentage" of the Plan is not less than one-hundred percent (100%).
- (iii) Limited payment if percentage at least sixty percent (60%) but less than eighty percent (80%) percent.
 - (A) In general. If the Plan's "adjusted funding target attainment percentage" for a Plan Year is sixty percent (60%) or greater but less than eighty percent (80%), then the Plan may not pay any "prohibited payment" after the valuation date for the Plan Year to the extent the amount of the payment exceeds the lesser of:
 - (1) fifty (50) percent of the amount of the payment which could be made without regard to this subsection, or
 - (2) the present value (determined under guidance prescribed by the Pension Benefit Guaranty Corporation, using the interest and mortality assumptions under Code Section 417(e)) of the maximum guarantee with respect to the participant under ERISA Section 4022.
 - (B) One-time application.
 - (1) In general. Only 1 "prohibited payment" meeting the requirements of subparagraph (A) may be made with respect to any Participant during any period of consecutive Plan Years to which the limitations under either paragraph (i) or (ii) or this paragraph applies.
 - (2) Treatment of beneficiaries. For purposes of this subparagraph, a Participant and any Beneficiary (including an alternate payee, as defined in Code Section 414(p)(8)) shall be treated as one Participant. If the Accrued Benefit

of a Participant is allocated to such an alternate payee and one or more other persons, the amount under subparagraph (A) shall be allocated among such persons in the same manner as the Accrued Benefit is allocated unless the qualified domestic relations order (as defined in Code Section 414(p)(1)(A)) provides otherwise.

- (iv) Exception. This subsection shall not apply for any Plan Year if the terms of the Plan (as in effect for the period beginning on September 1, 2005, and ending with such Plan Year) provide for no benefit accruals with respect to any Participant during such period.
- (v) “Prohibited payment.” For purpose of this subsection, the term “ **prohibited payment** ” means:
 - (A) any payment, in excess of the monthly amount paid under a single life annuity (plus any Social Security supplements described in the last sentence of Code Section 411(a)(9)), to a Participant or Beneficiary whose Annuity Starting Date occurs during any period a limitation under paragraph (i) or (ii) is in effect,
 - (B) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits, and
 - (C) any other payment specified by the Secretary by Regulations.

Such term shall not include the payment of a benefit which under Code Section 411(a)(11) may be immediately distributed without the consent of the Participant.

6.05 Limitation on Benefit Accruals for Plans With Severe Funding Shortfalls .

- (i) In general. If the Plan’s “adjusted funding target attainment percentage” for a Plan Year is less than sixty percent (60%), benefit accruals under the Plan shall cease as of the valuation date for the Plan Year.
- (ii) Exemption. Paragraph (i) shall cease to apply with respect to any Plan Year, effective as of the first day of the Plan Year, upon payment by the Employer of a contribution (in addition to any minimum required contribution under Code Section 430) equal to the amount sufficient to result in an “adjusted funding target attainment percentage” of sixty percent (60%).
- (iii) Temporary modification of limitation. In the case of the first Plan Year beginning during the period beginning on October 1, 2008, and ending on September 30, 2009, the provisions of Section 6.05(i) above shall be applied by substituting the Plan’s “adjusted funding target attainment percentage” for the preceding Plan Year for such percentage for such Plan Year, but only if the “adjusted funding target attainment percentage” for the preceding year is greater.

6.06 Rules Relating to Contributions Required to Avoid Benefit Limitations.

- (i) Security may be provided.
 - (A) In general. For purposes of this section, the “adjusted funding target attainment percentage” shall be determined by treating as an asset of the Plan any security provided by the Employer in a form meeting the requirements of subparagraph (B).
 - (B) Form of security. The security required under subparagraph (A) shall consist of:
 - (1) a bond issued by a corporate surety company that is an acceptable surety for purposes of ERISA Section 412;
 - (2) cash, or United States obligations which mature in three (3) years or less, held in escrow by a bank or similar financial institution; or
 - (3) such other form of security as is satisfactory to the Secretary and the parties involved.
 - (C) Enforcement. Any security provided under subparagraph (A) may be perfected and enforced at any time after the earlier of:
 - (1) the date on which the Plan terminates;
 - (2) if there is a failure to make a payment of the minimum required contribution for any Plan Year beginning after the security is provided, the due date for the payment under Code Section 430(j); or
 - (3) if the “adjusted funding target attainment percentage” is less than sixty percent (60%) for a consecutive period of 7 years, the valuation date for the last year in the period.
 - (D) Release of security. The security shall be released (and any amounts thereunder shall be refunded together with any interest accrued thereon) at such time as the Secretary may prescribe in Regulations, including Regulations for partial releases of the security by reason of increases in the “adjusted funding target attainment percentage.”
- (ii) Prefunding balance or funding standard carryover balance may not be used. No prefunding balance under Code Section 430 (f) or funding

standard carryover balance may be used under Sections 6.02, 6.03, or 6.05 to satisfy any payment an Employer may make under any such subsection to avoid or terminate the application of any limitation under such subsection.

(iii) Deemed reduction of funding balances :

- (A) In general. In any case in which a benefit limitation under Sections 6.02, 6.03, 6.04, or 6.05 would (but for this subparagraph and determined without regard to Sections 6.02(ii), 6.03(ii), or 6.05(ii)) apply to such Plan for the Plan Year, the Employer shall be treated for purposes of this title as having made an election under Code Section 430(f) to reduce the prefunding balance or funding standard carryover balance by such amount as is necessary for such benefit limitation to not apply to the Plan for such Plan Year.
- (B) Exception for insufficient funding balances. Subparagraph (A) shall not apply with respect to a benefit limitation for any Plan Year if the application of subparagraph (A) would not result in the benefit limitation not applying for such Plan Year.

6.07 Presumed Underfunding for Purposes of Benefit Limitations.

- (i) Presumption of continued underfunding. In any case in which a benefit limitation under Sections 6.02, 6.03, 6.04, or 6.05 has been applied to a Plan with respect to the Plan Year preceding the current Plan Year, the “adjusted funding target attainment percentage” of the Plan for the current Plan Year shall be presumed to be equal to the “adjusted funding target attainment percentage” of the Plan for the preceding Plan Year until the enrolled actuary of the Plan certifies the actual “adjusted funding target attainment percentage” of the Plan for the current Plan Year.
- (ii) Presumption of underfunding after 10th month. In any case in which no certification of the “adjusted funding target attainment percentage” for the current Plan Year is made with respect to the Plan before the first day of the 10th month of such year, for purposes of Sections 6.02, 6.03, 6.04, and 6.05, such first day shall be deemed, for purposes of such subsection, to be the valuation date of the Plan for the current Plan Year and the Plan’s “adjusted funding target attainment percentage” shall be conclusively presumed to be less than sixty percent (60%) as of such first day.
- (iii) Presumption of underfunding after 4th month for nearly underfunded plans. In any case in which:
 - (A) a benefit limitation under Sections 6.02, 6.03, 6.04, or 6.05 did not apply to a Plan with respect to the Plan Year preceding the current Plan Year, but the “adjusted funding target attainment percentage”

of the Plan for such preceding Plan Year was not more than ten (10) percentage points greater than the percentage which would have caused such subsection to apply to the Plan with respect to such preceding Plan Year, and

- (B) as of the first day of the 4th month of the current Plan Year, the enrolled actuary of the Plan has not certified the actual “adjusted funding target attainment percentage” of the Plan for the current Plan Year, until the enrolled actuary so certifies, such first day shall be deemed, for purposes of such subsection, to be the valuation date of the Plan for the current Plan Year and the “adjusted funding target attainment percentage” of the Plan as of such first day shall, for purposes of such subsection, be presumed to be equal to ten (10) percentage points less than the “adjusted funding target attainment percentage” of the Plan for such preceding Plan Year.

6.08 Treatment of Plan as of Close of Prohibited or Cessation Period. The following provisions apply for purposes of applying this Section.

- (i) Operation of Plan after period. Payments will resume effective as of the day following the close of the period for which any limitation of payment of benefits under Section 6.04 applies. If a limitation on benefit accruals under Section 6.05 applies to the Plan as of a “Section 436 measurement date,” but that limit no longer applies to the Plan as of a later “Section 436 measurement date,” then that limitation shall not apply to benefit accruals that are based on service on or after that later “Section 436 measurement date,” except to the extent that the Plan does then not provide for such benefit accruals or provides that benefit accruals will not resume when the limitation ceases to apply. A “Section 436 measurement date” is the date that is used to determine when the limitations of Code Sections 436(d) and 436(e) apply or cease to apply.
- (ii) Treatment of affected benefits. Nothing in this subsection shall be construed as affecting the Plan’s treatment of benefits which would have been paid or accrued but for this Section.

6.09 Definitions.

- (i) The term “**funding target attainment percentage**” has the same meaning given such term by Code Section 430(d)(2), except as otherwise provided herein. However, in the case of Plan Years beginning in 2008, the “funding target attainment percentage” for the preceding Plan Year may be determined using such methods of estimation as the Secretary may provide.

- (iii) such other person or persons as may be designated by the Plan Administrator as a fiduciary in accordance with the provisions of this Article.

7.02 General Fiduciary Duties. Each Plan Fiduciary shall discharge his or her duties solely in the interest of the Participants and their Beneficiaries and act:

- (i) for the exclusive purpose of providing benefits to Participants and their Beneficiaries and defraying reasonable expenses of administering the Plan;
- (ii) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
- (iii) by diversifying the investments of the Plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, if the Fiduciary has the responsibility to invest plan assets; and
- (iv) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions only Title I of ERISA.

Each Plan Fiduciary shall perform the duties specifically assigned to him or her. No Plan Fiduciary shall have any responsibility for the performance or non-performance of any duties not specifically allocated to him or her.

7.03 Duties of the Trustee(s). The specific responsibilities and duties of the Trustee(s) are set forth in the Trust Indenture among the Plan Sponsor, the Plan Administrator, and the Trustee(s). In general the Trustee(s) shall:

- (i) invest Plan assets, subject to directions from the Plan Administrator or from any duly appointed investment manager;
- (ii) maintain adequate records of receipts, disbursements, and other transactions involving the Plan; and
- (iii) prepare such reports, statements, tax returns and other forms as may be required under the Trust Indenture or applicable laws and regulations.

7.04 Powers and Duties of the Plan Administrator. The Plan Administrator is the Benefits Committee. The Plan Administrator shall have the power, discretionary authority, and duty to interpret the provisions of the Plan and to make all decisions and take all actions that shall be necessary or proper in order to carry out the provisions of the Plan. Without limiting the generality of the foregoing, the Plan Administrator shall:

- (i) monitor compliance with the provisions of ERISA and other applicable laws with respect to the Plan;

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- (ii) establish an investment policy and funding method consistent with objectives of the Plan and with the requirements of applicable laws and regulations;
 - (iii) invest Plan assets except to the extent that the Plan Administrator has delegated such investment duties to an investment manager;
 - (iv) evaluate from time to time investment policy and the performance of any investment manager or investment advisor appointed by it;
 - (v) be solely responsible to, and shall, interpret and construe the Plan and resolve any ambiguities therein, with any such interpretations or constrictions to be conclusively binding and final, to the extent permitted by applicable law, upon all persons interested or claiming under the Plan;
 - (vi) determine, in its sole discretion, all questions concerning the eligibility of any person to participate in the Plan, the right to and the amount of any benefit payable under the Plan to or on behalf of an individual and the date on which any individual ceases to be a Participant, with any such determination to be conclusively binding and final, to the extent permitted by applicable law, upon all persons interested or claiming an interest in the Plan;
 - (vii) establish guidelines as required for the orderly and uniform administration of the Plan;
 - (viii) exercise overall control of the operation and administration of the Plan in matters not allocated to some other Fiduciary by the terms of this Plan.
 - (ix) administer the Plan on a day-to-day basis in accordance with the provisions of this Plan and all other pertinent documents;
 - (x) retain and maintain Plan records, including Participant census data, participation dates, compensation records, and such other records necessary or desirable for proper Plan administration;
 - (xi) prepare and arrange for delivery to Participants of such summaries, descriptions, announcements and reports as are required to be given to participants under applicable laws and regulations;
 - (xii) file with the U.S. Department of Labor, the Internal Revenue Service and other regulatory agencies on a timely basis all required reports, forms and other documents;

- (xiii) prepare and furnish to the Trustee(s) sufficient records and data to enable the Trustee(s) to properly perform its obligations under the Trust Indenture; and
- (xiv) to take appropriate actions required to correct any errors made in determining the eligibility of any employee for benefits under the Plan or the amount of benefits payable under the Plan, including as part of correcting any error made in computing the benefits of any Participant or Beneficiary, making equitable adjustments (an increase or decrease) in the amount of any future benefits payable under the Plan and including the recovery of any overpayment of benefits paid from the Plan as provided in Treasury Regulation Section 1.401(a)-13(c)(2)(iii).

The Plan Administrator may appoint or employ such advisers or assistants as the Plan Administrator deems necessary and may delegate to any one or more of its members any responsibility it may have under the Plan or designate any other person or persons to carry out any responsibility it may have under the Plan.

Notwithstanding any provisions elsewhere to the contrary, the Plan Administrator shall have total discretion to fulfill the above responsibilities as the Plan Administrator sees fit on a uniform and consistent basis and as the Plan Administrator believes a prudent person acting in a like capacity and familiar with such matters would do.

7.05 Designation of Fiduciaries. The Plan Administrator shall have the authority to appoint and remove Trustee(s) in accordance with the Trust Indenture. The Plan Administrator may appoint and remove an investment manager and delegate to said investment manager power to manage, acquire or dispose of any assets of the Plan.

While there is an investment manager, the Plan Administrator shall have no obligation under this Plan with regard to the performance or non-performance of the duties delegated to the investment manager.

The Plan Administrator shall appoint all other Fiduciaries of this Plan. In making its appointment or delegation of authority, the Plan Administrator may designate all of the responsibilities to one person or it may allocate the responsibilities, on a continuing basis or on an ad hoc basis, to one or more individuals either jointly or severally. No individual named a Fiduciary shall have any responsibility for the performance or non-performance of any responsibilities or duties not allocated to him or her.

The appointing authority of a Fiduciary shall periodically, but not less frequently than annually, review the performance of each Fiduciary appointed in order to carry out the general fiduciary duties specified in Section 7.02 and, where appropriate, in its sole discretion, take or recommend remedial action.

7.06 Delegation of Duties by a Fiduciary. Except as provided in this Plan or in the appointment as a Fiduciary, no Fiduciary may delegate his or her or her fiduciary responsibilities. If authorized by the appointing authority, a Fiduciary may appoint such agents as may be deemed necessary and delegate to such agents any non-fiduciary powers or duties,

whether ministerial or discretionary. No Fiduciary or agent of a Fiduciary who is a full-time employee of the Employer will receive any compensation from the Plan for his or her or her services, but the Employer or the Plan shall pay all expenses that such employee reasonably incurs in the discharge of his or her duties.

ARTICLE VIII BENEFITS COMMITTEE

8.01 Appointment of Benefits Committee. The Benefits Committee (the “ **Benefits Committee** ”) shall consist of three or more members appointed from time to time by the President of the Employer (the “ **President** ”), who shall also designate one of the members as chairperson. Each member of the Benefits Committee and its chairperson shall serve at the pleasure of the appointing authority.

8.02 Benefits Committee to Act by Majority Vote, etc. The Benefits Committee shall act by majority vote of all members. All actions, determinations, interpretations and decisions of the Benefits Committee with respect to any matter within its jurisdiction will be conclusive and binding on all persons. Any person may rely conclusively upon any action if certified by the Benefits Committee.

Notwithstanding the above, a member of the Benefits Committee who is also a Participant shall not vote or act upon any matter relating solely or primarily to himself or herself.

8.03 Records and Reports of the Benefits Committee. The Benefits Committee shall keep a record of all of its proceedings and acts, and shall keep such books of account, records and other data as may be necessary for the proper administration of the Plan and file or deliver to Participants and their Beneficiaries whatever reports are required by any regulatory authority.

8.04 Costs and Expenses of Administration. Notwithstanding any provisions of the Plan to the contrary, all clerical, legal and other expenses of the Plan and the Trust, including Trustee’s fees, shall be paid by the Plan, except to the extent the Employer elects to pay such amounts; provided, however, that if the Employer pays such amounts it shall be reimbursed by the Trust for such amounts unless the Employer elects not to be so reimbursed.

8.05 Indemnification of the Plan Administrator and Assistants. The Employer shall indemnify and defend, to the extent permitted under the By-Laws of the Employer, any Employee or former Employee (i) who serves or has served as a member of the Benefits Committee, (ii) who has been appointed to assist the Benefits Committee in administering the Plan, or (iii) to whom the Benefits Committee has delegated any of its duties or responsibilities against any liabilities, damages, costs and expenses (including attorneys’ fees and amounts paid in settlement of any claims approved by the Employer) occasioned by any act or omission to act in connection with the Plan, if such act or omission to act is in good faith and without gross negligence; provided that such Employee or former Employee is not otherwise indemnified or saved harmless under any liability insurance or other indemnification arrangement.

**ARTICLE IX
CLAIMS PROCEDURE**

9.01 Claims Fiduciary. The Plan Administrator will act as Claims Fiduciary, except to the extent that the Plan Administrator has delegated the function to some other person or persons, committee or entity.

Notwithstanding anything in the Plan to the contrary, the Claims Fiduciary shall have total and complete discretion to fulfill its fiduciary responsibilities as it sees fit on a uniform and consistent basis and as it believes a prudent person acting in a like capacity and familiar with such matters would do.

9.02 Claims for Benefits. Claims for benefits under the Plan may be filed with the Plan Administrator on forms supplied by the Employer. For the purpose of this procedure, “**claim**” means a request for a Plan benefit by a Participant or a Beneficiary of a Participant. If the basis of the claim includes documentation not a part of the records of the Plan or of the Employer, all such documentation must be included with the claim.

9.03 Duty to Keep Plan Administrator Informed of Current Address. Each Participant and Beneficiary must file with the Plan Administrator from time to time his or her post office address and each change thereof. Any communication, statement or notice addressed to a Participant or Beneficiary at his or her last post office address filed with the Plan Administrator, or if no address is filed with the Plan Administrator, then at his or her last post office address as shown on the Employer’s records, will be binding on the Participant and Beneficiary for all purposes of the Plan. Neither the Plan Administrator nor the Employer shall be required to search for or locate a Participant or Beneficiary.

9.04 Failure to Claim Benefits. If the Plan Administrator notifies a Participant or Beneficiary by registered or certified mail at his or her last known address that he or she is entitled to a distribution and also notifies him or her of the provision of this Section, and the Participant or Beneficiary fails to claim his or her benefits under the Plan, the Plan Administrator shall make reasonable efforts to locate such Participant or Beneficiary. If the Participant or Beneficiary fails to claim his or her benefits under the Plan or fails to make his or her or her current address known to the Plan Administrator within three years after such notification, the Plan Administrator, at the end of such three-year period, shall direct that benefits which would have been payable to such Participant or Beneficiary shall be forfeited. In the event that the Participant or Beneficiary is subsequently located, the benefits which were forfeited shall be reinstated, and such reinstatement shall be taken into account in determining the Employer contribution for the Plan Year of the reinstatement.

9.05 Notice of Denial of Claim. If a claim is wholly or partially denied, the Plan Administrator shall notify the claimant of the denial of the claim within a reasonable period of time. Such notice of denial (i) shall be in writing, (ii) shall be written in a manner calculated to be understood by the claimant, and (iii) shall contain (A) the specific reason or reasons for denial of the claim, (B) a specific reference to the pertinent Plan provisions upon which the denial is based, (C) a description of any additional material or information necessary for the claimant to perfect the claim, along with an explanation why such material or information is necessary, and

(D) an explanation of the Plan's claim review procedure. Unless special circumstances require an extension of time for processing the claim, the Plan Administrator shall notify the claimant of the claim denial no later than 90 days after the Plan Administrator's receipt of the claim. If such an extension is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. The extension notice shall indicate the special circumstances requiring the extension of time and the date by which the Plan Administrator expects to render the final decision, which date will not be later than 180 days after the Plan Administrator's receipt of the claim.

9.06 Request for Review of Denial of Claim. Within 120 days of the receipt by the claimant of the written notice of the denial of the claim, or such later time as shall be deemed reasonable in the sole discretion of the Plan Administrator, taking into account the nature of the benefit subject to the claim and any other attendant circumstances, or if the claim has not been granted within a reasonable period of time, the claimant may file a written request with the Plan Administrator to conduct a full and fair review of the denial of the claimant's claim for benefits. In connection with the claimant's appeal of the denial of his or her benefit, the claimant may review pertinent documents and may submit issues and comments in writing.

9.07 Decision on Review of Denial of Claim. The Plan Administrator shall deliver to the claimant a written decision on the claim promptly, but not later than 60 days, after the receipt of the claimant's request for review, except that if there are special circumstances which require an extension of time for processing, the aforesaid 60-day period may be extended to 120 days. Such decision shall (i) be written in a manner calculated to be understood by the claimant, (ii) include specific reasons for the decision, and (iii) contain specific references to the pertinent Plan provisions upon which the decision is based.

9.08 Disability Claims. Notwithstanding anything in this Article IX of Part III of the Plan to the contrary, when a claim under this Article is made in connection with a benefit payable under Section 6.05 of Part I (as a result of a qualifying Participant's total disability) or is made in connection with a benefit payable under Section 5.04 of Part II (as a result of a qualifying Participant's Total Disability), solely for purposes of processing such a claim (i) all references in Sections 9.05 and 9.07 of this Part III to "90 days" and "60 days" are deemed to have been replaced with "45 days", (ii) the reference to "180 days" in Section 9.05 of this Part III is deemed to have been replaced with "75 days", (iii) the reference to "120 days" in Section 9.07 of this Part III is deemed to have been replaced with "90 days", (iv) a second, maximum 30 day extension of time will be allowed only under Section 9.05 of this Part III in the case of a claim within this Section, but only if the other requirements for an extension of time to respond described in Section 9.05 of this Part III are satisfied with respect to this second extension, and (v) the claimant will be allowed at least 45 days within which to provide any needed additional information sought in connection with any extension under Sections 9.05 and 9.08 of this Part III.

ARTICLE X AMENDMENT AND TERMINATION

10.01 Amendment of Plan. The right is reserved to the Employer to amend the Plan at any time and from time to time and all parties or any person claiming any interest hereunder shall be

bound thereby; except no person having an already vested interest in the Plan shall be deprived of any interest already existing nor have such interest adversely affected. No such amendment shall have the effect of vesting in the Employer any right, title or interest to any assets of the Plan. The decision of the Employer shall be binding upon the Participants and all other persons and parties interested as to whether or not any amendment does deprive a Participant or any other person or adversely affects such interest. No amendment to the Plan (including a change in the actuarial basis for determining optional or early retirement benefits) shall decrease a Participant's Accrued Benefit or eliminate an optional form of distribution. Notwithstanding the preceding sentence, a Participant's Accrued Benefit may be reduced to the extent permitted under Code Section 412(c)(8). For purposes of this paragraph, a Plan amendment which has the effect of (i) eliminating or reducing an early retirement benefit or a retirement-type subsidy, or (ii) eliminating an optional form of benefit with respect to benefits attributable to service before the amendment shall be treated as reducing accrued benefits. In the case of a retirement-type subsidy, the preceding sentence shall apply only with respect to a Participant who satisfies (either before or after the amendment) the pre-amendment conditions for the subsidy. In general, a retirement-type subsidy is a subsidy that continues after retirement, but does not include a qualified disability benefit, a medical benefit, or a social security supplement that does not continue after retirement age. Furthermore, no amendment to the Plan shall have the effect of decreasing a Participant's vested interest determined without regard to such amendment as of the later of the date such amendment is adopted, or becomes effective. Participants shall be notified of any Plan amendments.

In the case of any merger, consolidation with or transfer of assets or liabilities by the Employer to another Plan, each Participant in the Plan on the date of the transaction shall have a benefit in the surviving Plan (determined as if such Plan were terminated immediately after the transaction) at least equal to the benefit to which he or she would have been entitled to receive immediately prior to the transaction if the Plan had been terminated. However, this provision shall not be construed to be a termination or discontinuance of the Plan or to be a guarantee of a specific level of benefits from this Plan.

Notwithstanding the foregoing, a transfer of amounts from this Plan or its related trust to a nonqualified foreign trust as described in Revenue Ruling 2008-40 shall be treated as a distribution from the Plan.

10.02 Employer May Discontinue Plan. The Employer reserves the right at any time to reduce its annual payments, to partially terminate its Plan or to terminate its Plan in its entirety.

In the event of the liquidation of the Employer or the bona fide sale of the controlling interest thereof, the Employer or its successors or assigns shall not be obligated to continue the Plan.

Upon termination of the Employer's Plan or upon a partial termination of the Plan, each affected Participant shall have a 100% vested and non-forfeitable right to his or her Accrued Benefit to the extent then funded.

In the event of termination or partial termination of the Employer's Plan, the assets of the Plan then available to provide benefits shall be applied in accordance with ERISA Section 4044

and Rules and Regulations promulgated thereunder, in accordance with the following order of priority; provided, however, that no benefits being provided to former Participants or their Beneficiaries by the Insurer shall be canceled.

- (a) First, to provide that portion of each affected Participant's Accrued Benefit which is derived from any mandatory Employee contributions.
- (b) Second, to provide, in the case of retirement income benefits of each affected Participant or Beneficiary:
 - (i) Annuity benefits which were in pay status for at least the three-year period ending on the date of Plan termination; and
 - (ii) Annuity benefits which would have been in pay status during the three-year period ending on the date of Plan termination, had a Participant eligible to retire at the beginning of such three-year period retired on the date of Plan termination.

The level of benefits allocated to this priority class shall be determined on the basis of the Plan's provisions which were in effect at any time during the five-year period ending on the date of Plan termination under which the annuity benefits would be the least. Additionally, the level of such benefits is limited to the lowest level which was, or could have been, in pay status during the three- year period ending on the date of Plan termination (but, in the case of a benefit which would have been in pay status, the amount of the benefit, but not the entitlement to the benefit, shall be determined using the age, service and other relevant factors for computing the benefit under the Plan with respect to the Participant as of the date of Plan termination).

- (c) Third, to provide all other benefits guaranteed to affected Participants under Title IV of ERISA and Rules and Regulations promulgated thereunder (determined as if the insurance limits provided under the Act for benefits payable to one person with respect to more than one Participant or from more than one terminated Plan and the insurance limits on benefits payable to a substantial owner all were not applicable).
- (d) Fourth, to provide all other non-forfeitable benefits accrued by affected Participants under the Plan.
- (e) Fifth, to provide all other benefits accrued by affected Participants under the Plan.
- (f) Any residual assets of the Plan remaining after distribution in accordance with this Article shall be distributed to the Employer provided that all liabilities of the Plan to Participants and their Beneficiaries have been satisfied.

Notwithstanding anything in this Section to the contrary, in the event of a partial termination of the Plan, this Section shall be applicable only to those Participants and their Beneficiaries affected by the partial termination.

10.03 Distribution of Benefits Upon Plan Termination. Subject to Article IV (Pre-Termination Benefit Restrictions) and upon approval of the Pension Benefit Guaranty Corporation (“**PBGC**”), when required, upon a termination or partial termination of the Plan, benefits shall be distributed to affected Participants in any manner which the Plan Administrator deems to be in the best interests of the Participants which is acceptable under applicable PBGC and Internal Revenue Service laws, Rules and Regulations. Any such distribution may include a lump sum payment, deferment of the distribution or the distribution of an annuity contract without life insurance, immediate or deferred, which by its terms may not be sold, assigned discounted or pledged as collateral for a loan or as security for the performance of an obligation or for any other purpose to any party other than the issuer thereof. Spousal consent shall be required for distributions made on account of Plan termination. In no event shall the payment of benefits be deferred beyond the Participant’s Normal Retirement Date.

10.04 Return of Employer Contributions Under Special Circumstances.

Notwithstanding any provisions of this Plan to the contrary:

- (a) Any monies or other Plan assets attributable to any contributions made by the Employer to the Plan because of a mistake of fact must be returned to the Employer within one year after the date of contribution.
- (b) Any monies or other Plan assets attributable to any contribution made by the Employer which is conditional on the deductibility of such contribution must be refunded to the Employer, to the extent the deduction is disallowed, within one year after the date of such disallowance.

**ARTICLE XI
MISCELLANEOUS**

11.01 Protection of Employee Interest. No Participant or Beneficiary shall have the right to assign, pledge, alienate or convey any right, benefit or payment to which he or she shall be entitled in accordance with the provisions of the Plan, and any such attempted assignment, pledge, alienation or conveyance shall be null and void and of no effect. To the extent permitted by law, none of the benefits, payments, proceeds or rights herein created and provided for shall in any way be subject to any debts, contracts or engagements of any Participant or Beneficiary, as herein before described, nor to any suits, actions or other judicial process to levy upon or attach the same for the payment thereof; provided, however, that this provision does not preclude the Plan Administrator from complying with the terms of a Qualified Domestic Relations Order.

11.02 USERRA Compliance. Notwithstanding any provisions of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with the rules and requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 (“**USERRA**”) and Code Section 414(u).

- (a) Differential Wage Payments. For Plan Years beginning after December 31, 2008, (i) an individual receiving a differential wage payment (as defined by Code Section 3401(h)(2)), shall be treated as an employee of the employer making the payment, (ii) the differential wage payment shall be treated as compensation, the

the differential wage payment shall be treated as compensation, for purposes of Code Section 415(c)(3) and Treasury Regulation Section 1.415(c)-2 (e.g., for purposes of Code Section 415, top-heavy provisions of Code Section 416, determination of highly compensated employees under Code Section 414(q), and applying the 5% gateway requirement under the Code Section 401(a)(4) regulations), and (iii) the Plan shall not be treated as failing to meet the requirements of any provision described in Code Section 414(u)(1)(C) by reason of any contribution or benefit which is based on the differential wage payment. Subparagraph (iii) in the foregoing sentence shall apply only if all employees of the Employer performing service in the uniformed services described in Code Section 3401(h)(2)(A) are entitled to receive differential wage payments (as defined in Code Section 3401(h)(2)) on reasonably equivalent terms and, if eligible to participate in a retirement plan maintained by the employer, to make contributions based on the payments on reasonably equivalent terms (taking into account Code Sections 410(b)(3), (4), and (5)).

- (b) Death Benefits Under USERRA. Effective for deaths occurring on or after January 1, 2007, in the case of a Participant who dies while performing qualified military service as defined in Code Section 414(u), the survivors of the Participant are entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan had the Participant resumed and then terminated employment on account of death. Moreover, the Plan will credit the Participant's qualified military service as service for vesting purposes, as though the Participant had resumed employment under USSERRA immediately prior to the Participant's death. Moreover, the Plan will credit the Participant's qualified military service as service for vesting purposes, as though the Participant had resumed employment under USSERRA immediately prior to the Participant's death.

11.03 Meaning of Words Used in Plan. Wherever any words are used herein in the masculine gender, they shall be construed as though they were also used in the feminine or neuter gender in all cases where they would so apply. Wherever any words are used herein in the singular form, they shall be construed as though they were also used in the plural form in all cases where they would so apply.

Titles used herein are for general information only and this Plan is not to be construed by reference thereto.

11.04 Plan Does Not Create or Modify Employment Rights. The Plan shall not be construed as creating or modifying any contract of employment between the Employer and any Participant. All Employees shall be subject to discharge to the same extent that they would have been if the Plan had never been adopted.

11.05 Massachusetts Law Controls. This Plan shall be governed by the laws of the Commonwealth of Massachusetts to the extent that they are not pre-empted by the laws of the United States of America.

11.06 Payments to come from Plan Assets. All benefits and amounts payable under the Plan shall be paid or provided for solely from the assets of the Plan, and neither the Employer nor the Plan Administrator assumes any liability or responsibility therefor.

11.07 Receipt and Release for Payments. Any payment to any Participant, his or her legal representative, Beneficiary, or to any guardian, custodian or committee appointed for such Participant or Beneficiary in accordance with the provisions of this Plan, shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Employer and the Insurer, any of whom may require such Participant, legal representative, Beneficiary, guardian, custodian or committee, as a condition precedent to such payment, to execute a receipt and release thereof in such form as shall be determined by the Employer or Insurer.

11.08 Mandatory Withholding on Eligible Rollover Distributions. Except as provided in Code Section 3405 and in rules and regulations promulgated thereunder, the Employer is required to withhold 20% on any portion of an eligible rollover distribution not paid directly to an eligible retirement plan.

11.09 Payment under Qualified Domestic Relations Orders. Notwithstanding any provisions of the Plan to the contrary, if there is entered any Qualified Domestic Relations Order that affects the payment of benefits hereunder, such benefits shall be paid in accordance with the applicable requirements of such Order, provided that such Order (i) does not require the Plan to provide any type or form of benefits, or any option that is not otherwise provided hereunder, (ii) does not require the Plan to provide increased benefits, and (iii) does not require the payment of benefits to an alternate payee which are required to be paid to another alternate payee under another order previously determined to be a Qualified Domestic Relations Order.

The Plan Administrator shall establish reasonable procedures to determine whether an order or other decree is a Qualified Domestic Relations Order and to administer distributions under such orders.

To the extent required or permitted by any such Order, at any time on or after the date the Plan Administrator has determined that the Order is a Qualified Domestic Relations Order, the alternate payee shall have the right to request the Plan Administrator to commence distribution of benefits under the Plan (including any single sum cash-out that would be available if the Participant were the payee and entitled to a benefit payment on account of termination from service) regardless of whether the Participant is otherwise entitled to a distribution at such time under the Plan.

11.10 Electronic Communications. Effective for Plan Years beginning on or after January 1, 2007, any electronic communications made by the Plan to Participants in regards to eligible rollover distribution tax notices, Participant consents to distributions, and tax withholding notices shall comply with the requirements contained in Treasury Regulation Section 1.401(a)-21, in addition to all otherwise applicable requirements relating to the specific communication.

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EXECUTED this 28th day of January, 2011

The Hanover Insurance Company

By: /s/ Lorna Stearns
Name: Lorna Stearns
Title: Vice President

Part III – 46

**THE HANOVER INSURANCE GROUP
CASH BALANCE PENSION PLAN**

FIRST AMENDMENT

This First Amendment is executed by The Hanover Insurance Company, a New Hampshire corporation (the "Company").

WHEREAS, the Company sponsors The Hanover Insurance Group Cash Balance Pension Plan (the "Plan") and amended and restated the Plan generally effective January 1, 2010; and

WHEREAS, the Company has the authority to amend the Plan pursuant to Section 10.01 of Part III of the Plan; and

WHEREAS, the Company desires to further amend the Plan.

NOW, THEREFORE, the Plan is amended effective for Plan Years beginning on or after January 1, 2010, except as otherwise indicated, as follows:

1. The reference to "Article IX" in the first sentence of Section 6.06 of Part I of the Plan is changed from "Article IX" to "Article VIII".
2. Section 6.09(b) of Part I of the Plan is deleted in its entirety and the following new Section 6.09(b) is inserted in lieu thereof:

"The benefit suspended shall be equal to the portion of the Employee's or Pensioner's monthly annuity benefit derived from Employer contributions, including any temporary early retirement supplement; provided, however, that earnings credits provided under Section 4.03(a) of Part I of the Plan shall not be suspended by operation of this Section 6.09 of Part I of the Plan."
3. The last sentence of Section 11.02 of Part III of the Plan is deleted as duplicative of the immediately preceding sentence.

This First Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment and, except as hereby amended; the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this First Amendment has been executed this 21st day of December, 2011.

THE HANOVER INSURANCE COMPANY

By: _____
Authorized Representative

**THE HANOVER INSURANCE GROUP
CASH BALANCE PENSION PLAN
SECOND AMENDMENT**

This Second Amendment is executed by The Hanover Insurance Company, a New Hampshire corporation (the “ **Company** ”).

WHEREAS , the Company sponsors The Hanover Insurance Group Cash Balance Pension Plan (the “ **Plan** ”); and

WHEREAS , the Plan consists of the following three component parts, each of which is set forth in the same document: (i) Part I, which provides a cash balance and pension benefit which were formerly provided under a plan known as “The Allmerica Financial Cash Balance Pension Plan”, and then “The Hanover Insurance Group Cash Balance Pension Plan”, (ii) Part II, which provides a pension benefit which was formerly provided under a plan known as “The Allmerica Financial Agents’ Pension Plan”, and (iii) Part III, which contains Plan terms applicable to each of Part I and Part II; and

WHEREAS , the Plan was most recently amended and restated generally effective January 1, 2010, and such restatement has been amended once; and

WHEREAS , the Company has the authority to amend the Plan at any time pursuant to Section 10.01 of Part III of the Plan; and

WHEREAS , the Company desires to amend the Plan to encourage payment of the vested deferred benefits of certain terminated former participants by adding the option to make qualifying mandatory cashout distributions and related changes and by adding for only a stated, limited period of time certain voluntary lump sum optional forms.

NOW, THEREFORE , the Plan is amended, effective as provided below, as follows:

Part I is amended as follows:

1. Effective on October 18, 2012, Section 2.02 of Part I of the Plan is deleted in its entirety, and the following new Section 2.02 is inserted in lieu thereof:

“2.02 “Actuarial Equivalent” means a benefit having the same value as the benefit or benefits otherwise payable. Except as otherwise provided in this Section, the present value of any benefit determined under the terms of Part I of the Plan will be the actuarial equivalent of the no-death benefit life annuity retirement benefit specified in Section 6.01.

Actuarial Equivalent life annuity settlements of Participant Projected Account Balances or of optional life annuity Top Heavy Plan benefits will be computed utilizing (i) the Code Section 417 Mortality Table for determining the amount payable to a Participant having an annuity starting date on or after January 1, 2004, and (ii) the Code Section 417 Interest Rate for determining the amount payable to a Participant having an annuity starting date that occurred from January 1, 2004 through December 31, 2007, and the Code Section 417 Applicable Interest Rate beginning January 1, 2008 for determining the amount payable to a Participant having an annuity starting date on or after January 1,

2008. Except as provided otherwise in this Section, Actuarial Equivalents of the normal form of benefits payable when and as provided under Section 6.06(viii) and Section 8.02(z) will be computed using the Code Section 417 Mortality Table and the Code Section 417 Applicable Interest Rate.

Optional life annuity settlements of Grandfathered Benefits and of the Actuarial Equivalent monthly life annuity derived from a Participant's Projected Account Balance will be computed utilizing the 1983 Group Annuity Table with Projection H, with mortality rates based on calendar year of birth of 1930 and interest at the rate of 7% per annum. Adjustment factors used to determine optional forms of Grandfathered Benefits and of the Actuarial Equivalent monthly life annuity derived from a Projected Account Balance are included in Exhibit A, attached hereto and made a part of Part I of the Plan.

Adjustment factors for optional Grandfathered Benefits not illustrated and of the optional annuities for the Actuarial Equivalent monthly life annuity derived from a Projected Account Balance not included in the preceding paragraph, if any, will be computed on an actuarial basis consistent with that used in computing the factors shown in Exhibit A.

The present value (including, but not limited to, for purposes of Section 7.01(a)(i)(B), Section 7.01 (a)(ii)(B), determining eligibility for cashout distributions under Sections 6.06 and 8.02 and determining the amount of any lump sum distribution of a Grandfathered Benefit or a benefit for Non-Key Employee Participants in a Top Heavy Plan) shall be determined on the basis of (i) the mortality rates specified above and an interest rate of 7% per annum, or (ii) the Code Section 417 Mortality Table and the Code Section 417 Interest Rate (or for determining the amount payable to a Participant having an annuity starting date on and after January 1, 2008, the Code Section 417 Applicable Interest Rate), whichever produces the greater benefit.

The preceding paragraphs shall not apply to the extent they would cause the Plan to fail to satisfy the requirements of Article IV of Part III of the Plan (Limitations on Benefits) or Section 2.03 of Part III of the Plan (Minimum Benefits for Top Heavy Benefits).

For purposes of Part I of the Plan, (a) the “ **Code Section 417 Mortality Table** ” means the applicable mortality table prescribed by the Secretary of the Treasury pursuant to Code section 417(e)(3), as in effect from time to time; provided, however, that notwithstanding the preceding provisions of this paragraph, for distributions commencing on or after December 31, 2002, and prior to January 1, 2008, the Code Section 417 Mortality Table means the Table set forth in Revenue Ruling 2001-62 and for purposes of determining the amount payable to a Participant with an annuity starting date on or after January 1, 2008, the Code Section 417 Mortality Table means the Table set forth in Revenue Ruling 2007-67 or such other Table as may be prescribed by the Secretary of the Treasury pursuant to Code section 417(e)(3); (b) for periods beginning on and after January 1, 2004, the “ **Code Section 417 Interest Rate** ” means, for the Plan Year which contains the annuity starting date for the distribution, the annual rate of interest on 30-year Treasury securities in effect for the second month immediately preceding the first day of the Plan Year (e.g. , November 2006 for

the 2007 Plan Year), and (c) for periods beginning on and after January 1, 2008, the “ **Code Section 417 Applicable Interest Rate** ” means, for the Plan Year which contains the annuity starting date for the distribution, the applicable interest rate described by Code section 417(e) after its amendment by the Pension Protection Act of 2006, which rate more specifically shall be the adjusted first, second, and third segment rates applied under rules similar to the rules of Code section 430(h)(2)(C) for the lookback month used to determine the previously applicable interest rate on 30-year Treasury securities (*e.g.* , November 2009 for the 2010 Plan Year) or for such other time as the Secretary of the Treasury may by regulations prescribe. For purposes of determining the Code Section 417 Applicable Interest Rate, the first, second, and third segment rates are the first, second, and third segment rates which would be determined under Code section 430(h)(2)(C) if:

- (i) Code section 430(h)(2)(D) were applied by substituting the average yields for the month described in clause (ii) below for the average yields for the 24-month period described in such Code section, and
- (ii) Code section 430(h)(2)(G)(i)(II) were applied by substituting “Section 417(e)(3)(A)(ii)(II) for “Section 412(b)(5)(B)(ii)(II)”, and
- (iii) The applicable percentage under Code section 430(h)(2)(G) is treated as being 20% in 2008, 40% in 2009, 60% in 2010, and 80% in 2011.”

2. Effective on and after January 1, 2013, the last sentence of the second paragraph of Section 2.02 of Part I of the Plan, as added by this Amendment, is deleted in its entirety.

3. Effective on and after January 1, 2010, Section 4.01 of Part I of the Plan is amended to delete the third sentence of Section 4.01 and to substitute the following as the new third sentence of Section 4.01, as follows:

“The resultant value determined at any time, after the operation of Sections 4.02, 4.03, and 4.04, shall be the Participant’s “ **Account Balance** .””

4. Effective solely for the period beginning October 18, 2012 and ending December 31, 2012, Section 6.06(v) of Part I of the Plan is deleted in its entirety, and the following new Section 6.06(v) is inserted in lieu thereof:

“(v) Notwithstanding anything in Part I of the Plan to the contrary, a single lump sum payment in an amount equal to the Participant’s vested Account Balance on the Determination Date; provided , however , that except as provided in (vi) below, in (vii) below, and during the period from October 18, 2012 through December 31, 2012, as provided in (viii) below or in Section 8.02(z), this form of payment shall not be available with respect to the Participant’s vested Accrued Benefit attributable to the Participant’s Grandfathered Benefit, if any, on the Determination Date.”

5. Effective on and after January 1, 2013, Section 6.06(v) of Part I of the Plan, as changed by this Amendment, is deleted in its entirety, and the following new Section 6.06(v) is inserted in lieu thereof:

“(v) Notwithstanding anything in Part I of the Plan to the contrary, a single lump sum payment in an amount equal to the Participant’s vested Account Balance on the Determination Date; provided, however, that except as provided in (vi) below and (vii) below, this form of payment shall not be available with respect to the Participant’s vested Accrued Benefit attributable to the Participant’s Grandfathered Benefit, if any, on the Determination Date. In the event a Participant elects to have his or her vested Account Balance on the Determination Date payable in a lump sum under this (v), the portion of his or her Accrued Benefit attributable to his or her Grandfathered Benefit, if any, shall be paid only in accordance with the otherwise applicable provisions of this Article VI of Part I of the Plan.”

6. Effective solely for the period beginning October 18, 2012 and ending December 31, 2012, Section 6.06(vi) of Part I of the Plan is deleted in its entirety, and the following new Section 6.06(vi) is inserted in lieu thereof:

“(vi) If the present value of a Participant’s vested Grandfathered Benefit, if any, on the Determination Date does not exceed \$5,000, an immediate single sum payment in an amount equal to such present value.”

7. Effective on and after January 1, 2013, Section 6.06(vi) of Part I of the Plan, as changed by this Amendment, is deleted in its entirety, and the following new Section 6.06(vi) is inserted in lieu thereof:

“(vi) If the present value of a Participant’s vested Grandfathered Benefit, if any, on the Determination Date does not exceed \$5,000, an immediate single sum payment in an amount equal to such present value. If the present value of a Participant’s vested Grandfathered Benefit exceeds \$5,000, only annuity options (i) through (iv) above shall be available with respect to such vested Grandfathered Benefit.”

8. Effective on October 18, 2012, Section 6.06 of Part I of the Plan is amended to insert the following immediately after Section 6.06 (vi), as follows:

“(vii) Notwithstanding anything in Part I of the Plan to the contrary except Section 6.10, for involuntary cashouts paid on or after December 1, 2012, an immediate single lump sum payment of the present value of the Former Participant’s vested Accrued Benefit as of December 1, 2012 (or after December 1, 2012, on the Determination Date) will be paid to a Former Participant (other than a Former Participant (a) who is a participant in The Hanover Excess Benefit Retirement Plan, or (b) whose Accrued Benefit has been restricted by an approved Qualified Domestic Relations Order) who is not an Employee of the Employer or an Affiliate if the present value of the Former Participant’s vested Accrued Benefit, if any, on December 1, 2012 (or after December 1, 2012, on the

Determination Date) does not exceed \$5,000. Consent to this involuntary cashout from the Former Participant will not be required, and spousal consent to this involuntary cashout will not be required in the case of a married Former Participant. For purposes of Sections 6.06 and 8.02, an “**involuntary cashout**” is a payment under Section 6.06(vii) or its counterpart in Section 8.02, as appropriate.

(viii) Notwithstanding anything in Part I of the Plan to the contrary, for distributions elected under this (viii) by a qualified Former Participant during the period beginning October 18, 2012 and ending at midnight on November 30, 2012, either an immediate single sum payment of the present value of the qualified Former Participant’s vested Accrued Benefit in an amount equal to such present value as of the Determination Date, or one of the annuity settlement options described in (i) through (iv) above, to the extent otherwise available, payable beginning immediately on the Determination Date (except that the only immediate annuity settlement options available under this (viii) to a qualified Former Participant whose vested Accrued Benefit is only a Grandfathered Benefit and who is not eligible for early retirement under Section 6.02 or 6.03 on the Determination Date will be the annuity settlement option described in (i) above (and only with a 50% survivor option), a Qualified Joint and Survivor Annuity, and a single life annuity). An election by a qualified Former Participant under this (viii) may not be revoked after December 1, 2012. Solely for purposes of calculating a Former Participant’s vested Accrued Benefit under this (viii), an early retirement subsidy or subsidies available for the qualified Former Participant under Section 6.02 or Section 6.03 on the Determination Date or after the Determination Date upon reaching his or her 55th birthday (or later) after the Determination Date shall be included in the vested Accrued Benefit under this (viii). For purposes of this (viii) and Section 8.02(z), a “**qualified Former Participant**” is (1) a Former Participant (a) who was a Former Participant on July 1, 2012 and on December 1, 2012, (b) who is entitled to a vested, deferred Normal Retirement Benefit, (c) who has not received any portion of his or her vested, deferred Grandfathered Benefit by December 1, 2012, (d) who is not a participant in The Hanover Excess Benefit Retirement Plan on December 1, 2012, (e) the Actuarial Equivalent present value of whose vested Accrued Benefit on December 1, 2012 exceeds \$5,000 but does not exceed \$15,000, (f) whose last day as an Employee of an Employer or an Affiliate was before July 1, 2012, (g) who is not a named party in a Domestic Relations Order under review on the Determination Date by the Plan to determine whether it will be a Qualified Domestic Relations Order, and (h) who has not become eligible to begin receiving his or her vested deferred Normal Retirement Benefit (other than his or her Account Balance) from the Plan, and (2) an alternate payee of a qualified Former Participant, but only if the combined present values of the vested Accrued Benefits of the qualified Former Participant and his or her alternate payee do not exceed \$15,000.”

9. Effective on and after January 1, 2013, Section 6.06(viii) of Part I of the Plan, as added by this Amendment, is deleted in its entirety.

10. Effective on and after December 1, 2012, Section 6.06 of Part I of the Plan is amended to delete the last five paragraphs of Section 6.06 and to substitute the following as the new last paragraphs of Section 6.06, as follows:

“Unless the Participant elects otherwise, distribution of benefits will begin no later than the 60th day after the later of the close of the Plan Year in which:

- (i) the Participant attains Normal Retirement Age; or
- (ii) the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant and spouse (or where either the Participant or the spouse has died, the survivor) to consent to a distribution (other than an involuntary cashout) when a benefit is “immediately distributable” (as described below) shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section 6.06 of Part I of the Plan (and provisions of Article III of Part III of the Plan). In no event will benefits begin to be distributed (other than as an involuntary cashout) prior to the later of Age 62 or Normal Retirement Age without the consent of the Participant. The consent of the Participant’s spouse will also be required for any such distribution (other than an involuntary cashout) unless the benefit is paid in the form of a Qualified Joint and Survivor Annuity. Any spousal consent shall satisfy the requirements of Section 6.07.

If the Accrued Benefit is immediately distributable, the Participant and the Participant’s spouse (or where either the Participant or the spouse has died, the survivor) must consent to any distribution (other than as an involuntary cashout) of such Accrued Benefit. Needed consents of the Participant and the Participant’s spouse shall be obtained in writing within the 90-day period (180-day period for Plan Years beginning January 1, 2007 and thereafter) ending on the annuity starting date. The “**annuity starting date**” is the first day of the first period for which an amount is paid as an annuity or any other form. The Plan Administrator shall notify the Participant and the Participant’s spouse of the right to defer any distribution (other than an involuntary cashout) until the Participant’s Accrued Benefit is no longer immediately distributable. Such notification shall include a general description of the material features, and an explanation of the relative values, of the optional forms of benefit available under the Plan in a manner that would satisfy the notice requirements of Section 417(a)(3) of the Code, and shall be provided no less than 30 days and no more than 90 days (180 days for Plan Years beginning January 1, 2007 and thereafter) prior to the annuity starting date; provided, however, that the minimum 30 day notice period described in this sentence may be waived by the Participant’s written waiver given after notice to the Participant has described that the Participant was allowed at least 30 days to consider his choice under this Section and that the Participant was allowed to revoke his waiver under this Section at any time through his or her annuity starting date.

Notwithstanding the foregoing, only the Participant need consent to the commencement of a distribution in the form of a Qualified Joint and Survivor Annuity while the Accrued Benefit is immediately distributable. Neither the consent of the Participant nor the Participant’s spouse shall be required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code.

An Accrued Benefit is “ **immediately distributable** ” if any part of the Accrued Benefit could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or Age 62.

Notwithstanding the above the entire interest of a Participant or a Beneficiary must be distributed in accordance with the minimum required distribution rules set forth in Article III of Part III of the Plan.”

11. Effective for annuity starting dates occurring on and after December 1, 2012, Section 6.10(a) of Part I of the Plan is deleted in its entirety, and the following new Section 6.10(a) is substituted in lieu thereof:

“(a) Notwithstanding any provision of Part I of the Plan to the contrary that would otherwise limit a distributee’s election under this Article or under Articles VII and VIII other than this Section 6.10(a), a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover; provided, however, that if the Actuarial Equivalent present value of a distributee’s vested Accrued Benefit does not exceed \$1,000, the distributee does not have to be allowed the eligible rollover election described in this sentence. If the Actuarial Equivalent present value of a Participant’s Accrued Benefit exceeds \$1,000 and does not exceed \$5,000 and the Participant does not elect a distribution or a rollover, the Plan shall automatically distribute the Participant’s Accrued Benefit, in a direct rollover, to an eligible individual retirement plan (a “ **Rollover IRA** ”) for the benefit of such Participant and pursuant to a written agreement with the Rollover IRA provider that provides (i) the amount rolled over to the Rollover IRA shall be invested in a manner designed to preserve principal and provide a reasonable rate of return and liquidity; (ii) all fees and expenses attendant to a Rollover IRA shall not exceed the fees and expenses charged by the Rollover IRA provider for comparable IRAs established for reasons other than receipt of a rollover distribution; and (iii) the Participant on whose behalf the automatic rollover is made under this Section shall have the right to enforce the terms of the written agreement establishing the Rollover IRA, with regard to his or her rolled over funds, against the Rollover IRA provider. All fees and expenses attendant to the Rollover IRA shall be allocated to the Rollover IRA.”

12. Effective on October 18, 2012, Section 8.02 of Part I of the Plan is amended to delete the last three paragraphs of Section 8.02 in their entirety and to substitute the following as the last paragraphs of Section 8.02, as follows:

“Notwithstanding the foregoing, a Participant who is entitled to a deferred Normal Retirement Benefit may elect to receive his or her vested Account Balance on the Determination Date in a single lump sum. In addition, if a Participant makes an election described in the immediately preceding sentence and if the present value of the portion of the vested Accrued Benefit attributable to such Participant’s vested Grandfathered Benefit does not exceed \$5,000, the

Participant may elect to receive such portion of his or her vested Accrued Benefit attributable to the Grandfathered Benefit in a lump sum. Any such Participant may elect to receive either such lump sum at any time after separation from service and, in the case of a single lump sum distribution of his or her vested Account Balance, must receive such benefit no later than the time at which benefits attributable to the Participant's Grandfathered Benefit, if any, commences. Any such election shall be subject to spousal consent in the case of a married Participant. Any spousal consent must satisfy the requirement of Section 6.07.

Notwithstanding anything in Part I of the Plan to the contrary except Section 6.10, effective for involuntary cashouts paid on or after December 1, 2012, a Former Participant (other than a Former Participant (a) who is a participant in The Hanover Excess Benefit Retirement Plan, or (b) whose Accrued Benefit has been restricted by an approved Qualified Domestic Relations Order) who is not an Employee of the Employer or an Affiliate will be paid the present value of his or her vested Accrued Benefit on December 1, 2012 (or after December 1, 2012, on the Determination Date) in an immediate lump sum if the present value of his or her vested Accrued Benefit, if any, on December 1, 2012 (or after December 1, 2012, on the Determination Date) does not exceed \$5,000. Consent to this involuntary cashout by the Former Participant will not be required, and spousal consent to this involuntary cashout will not be required in the case of a married Former Participant.

Notwithstanding anything in Part I of the Plan to the contrary, an actively employed Participant's Accrued Benefit shall become 100% vested and non-forfeitable upon the earliest of (i) the date of such Participant's death; (ii) the date such a Participant becomes Totally Disabled (within the meaning of Section 6.05 of Part I of the Plan); or (iii) the date such a Participant attains his or her Normal Retirement Age.

Any distributions under this Article shall be subject to the requirements of Sections 6.06 and 6.07, including the requirement that a Participant shall be eligible to receive any form of distribution provided for under Section 6.06 of Part I of the Plan at such time as he or she is eligible to receive his or her vested Account Balance in a lump sum, except to the extent expressly provided otherwise in this Section.

(z) Notwithstanding anything in Part I of the Plan to the contrary, effective for distributions elected under this Section 8.02(z) by a qualified Former Participant during the period beginning October 18, 2012 and ending at midnight on November 30, 2012, a qualified Former Participant (as defined in Section 6.06(viii)) may elect to receive his or her vested Accrued Benefit attributable to such Former Participant's vested Grandfathered Benefit either in an immediate lump sum or in one of the annuity settlement options described in Section 6.06(i) through Section 6.06(iv), to the extent otherwise available, payable beginning immediately on the Determination Date; provided, however, that a qualified Former Participant electing under this Section 8.02(z) to receive an immediate payment of some or all of his or her vested Accrued Benefit attributable to his vested Grandfathered Benefit must also make a qualified election under this Section to receive his or her vested Account Balance in the same immediate

payment form as part of the same distribution, and the only immediate annuity settlement options available under this Section 8.02(z) to a qualified Former Participant whose vested Accrued Benefit is only a Grandfathered Benefit and who is not eligible for early retirement under Section 6.02 or Section 6.03 on the Determination Date will be the annuity settlement option described in Section 6.06(i) (and only with a 50% survivor option), a Qualified Joint and Survivor Annuity, and a single life annuity. An election by a qualified Former Participant under this Section 8.02(z) may not be revoked after December 1, 2012. Any spousal consent must satisfy the requirements of Section 6.07. Solely for purposes of calculating a Former Participant's vested Accrued Benefit under this Section 8.02(z), an early retirement subsidy or subsidies available for the qualified Former Participant under Section 6.02 or Section 6.03 on the Determination Date or after the Determination Date upon reaching his or her 55th birthday (or later) after the Determination Date shall be included in the vested Accrued Benefit under this Section 8.02(z)."

13. Effective on and after January 1, 2013, Section 8.02(z) of Part I of the Plan, as added by this Amendment, is deleted in its entirety.

14. Effective on and after January 1, 2010, Section 8.07(b) of Part I of the Plan is amended to delete the first sentence of Section 8.07 (b) and to substitute the following as the new first sentence of Section 8.07(b), as follows:

"In the case of the distribution of the present value of a Participant's or Former Participant's vested Accrued Benefit in accordance with Sections 6.06 or 8.02, the Participant's Accrued Benefit described in Subsections 2.01(a) and (b) (including all optional forms of benefits and subsidies relating to such benefits) shall be restored if he or she is subsequently an Employee and repays the amount distributed plus interest, compounded annually from the date of distribution at the rate of 5 percent."

Part II is amended as follows:

1. Effective on October 18, 2012, the second paragraph of Section 2.02 of Part II of the Plan is deleted in its entirety, and the following is inserted in lieu thereof as the new second paragraph of Section 2.02:

"Actuarial Equivalent life annuity settlements of optional life annuity Top Heavy Plan benefits will be computed utilizing (i) the Code Section 417 Mortality Table for determining the amount payable to a Participant having an annuity starting date on or after January 1, 2004, and (ii) the Code Section 417 Interest Rate for determining the amount payable to a Participant having an annuity starting date that occurred from January 1, 2004 through December 31, 2007, and the Code Section 417 Applicable Interest Rate for determining the amount payable to a Participant having an annuity starting date on or after January 1, 2008. Except as provided otherwise in this Section, Actuarial Equivalents of the normal form of benefits payable when and as provided under Section 5.05(f) and Section 7.02 will be computed using the Code Section 417 Mortality Table and the Code Section 417 Applicable Interest Rate."

2. Effective on and after January 1, 2013, the last sentence of the second paragraph of Section 2.02, as added by this Amendment, is deleted in its entirety.

3. Effective on October 18, 2012, Section 5.05 of Part II of the Plan is amended to insert the following immediately after Section 5.05(e) as new Section 5.05(f):

“(f) Notwithstanding anything in Part II of the Plan to the contrary, for distributions elected under this Section 5.05(f) by a qualified Former Participant during the period beginning October 18, 2012 and ending at midnight on November 30, 2012, a qualified Former Participant will be paid either an immediate single sum payment of the present value of the qualified Former Participant’s vested Accrued Benefit in an amount equal to such present value as of the Determination Date, or one of the annuity settlement options described in Sections 5.05(a) through 5.05(d) above, to the extent otherwise available, payable beginning immediately on the Determination Date (except that the only immediate annuity settlement options available under this Section 5.05(f) to a qualified Former Participant whose vested Accrued Benefit is only an Accrued Benefit accrued only under Part II of the Plan (and its predecessors) and who is not eligible for early retirement under Section 5.02 on the Determination Date will be the annuity settlement option under Section 5.05(a) (and only with a 50% survivor option), a Qualified Joint and Survivor Annuity, and a single life annuity). An election by a qualified Former Participant under this Section 5.05(f) may not be revoked after December 1, 2012. Solely for purposes of calculating a qualified Former Participant’s vested Accrued Benefit under this Section 5.05(f), an early retirement subsidy or subsidies available for the qualified Former Participant under Section 5.02 on the Determination Date or after the Determination Date upon reaching his or her 55th birthday (or later) after the Determination Date shall be included in the vested Accrued Benefit under this Section 5.05(f). For purposes of this Section 5.05 and Section 7.02, a “**qualified Former Participant**” is (1) a Former Participant (a) who was a Former Participant on July 1, 2012 and on December 1, 2012, (b) who is entitled to a vested, deferred Normal Retirement Benefit, (c) who has not received any portion of his or her vested, deferred Normal Retirement Benefit by December 1, 2012, (d) who is not a participant in The Hanover Excess Benefit Retirement Plan on December 1, 2012, (e) the Actuarial Equivalent present value of whose vested Accrued Benefit on December 1, 2012 exceeds \$5,000 but does not exceed \$15,000, and (f) whose last day as an Employee of an Employer or an Affiliate was before July 1, 2012, (g) who is not a named party in a Domestic Relations Order under review on the Determination Date by the Plan to determine whether it will be a Qualified Domestic Relations Order, and (h) who has not become eligible to begin receiving his or her vested deferred Normal Retirement Benefit (as defined in Part II) from the Plan, and (2) an alternate payee of a qualified Former Participant, but only if the combined present values of the vested Accrued Benefits on the Determination Date of the qualified Former Participant and his or her alternate payee do not exceed \$15,000.”

4. Effective on and after January 1, 2013, Section 5.05(f) of Part II of the Plan, as added by this Amendment, is deleted in its entirety.

5. Effective on and after October 18, 2012, Section 5.05 of Part II of the Plan is amended to add the following immediately after new Section 5.05(f):

“Notwithstanding anything in Part II of the Plan to the contrary except Section 5.08, effective for involuntary cashouts paid on or after December 1, 2012, a Former Participant (other than a Former Participant (a) who is a participant in The Hanover Excess Benefit Retirement Plan, or (b) whose Accrued Benefit has been restricted by an approved Qualified Domestic Relations Order) who is not an Employee of the Employer or an Affiliate will be paid the present value of his or her vested Accrued Benefit on December 1, 2012 (or after December 1, 2012, on the Determination Date) in an immediate lump sum if the present value of the Former Participant’s vested Accrued Benefit, if any, on December 1, 2012 (or after December 1, 2012, on the Determination Date) does not exceed \$5,000. Consent to this involuntary cashout by the Former Participant will not be required, and spousal consent to this involuntary cashout will not be required in the case of a married Former Participant.”

6. Effective on and after December 1, 2012, Section 5.05 of Part II of the Plan is amended to delete the last five paragraphs of Section 5.05 and to substitute the following as the new last paragraphs of Section 5.05, as follows:

“Notwithstanding the foregoing, the failure of a Participant and spouse (or where either the Participant or the spouse has died, the survivor) to consent to a distribution (other than an involuntary cashout) when a benefit is “immediately distributable” (as described below) shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section 5.05 (and provisions of Article III of Part III of the Plan). In no event will benefits begin to be distributed (other than as an involuntary cashout) prior to the later of Age 62 or Normal Retirement Age without the consent of the Participant. The consent of the Participant’s spouse will also be required for any such distribution (other than an involuntary cashout) unless the benefit is paid in the form of a Qualified Joint and Survivor Annuity.

If the Accrued Benefit is immediately distributable, the Participant and the Participant’s spouse (or where either the Participant or the spouse has died, the survivor) must consent to any distribution (other than as an involuntary cashout) of such Accrued Benefit. Needed consents of the Participant and the Participant’s spouse shall be obtained in writing within the 90-day period (180-day period for Plan Years beginning January 1, 2007 and thereafter) ending on the annuity starting date. The “**annuity starting date**” is the first day of the first period for which an amount is paid as an annuity or any other form. The Plan Administrator shall notify the Participant and the Participant’s spouse of the right to defer any distribution (other than an involuntary cashout) until the Participant’s Accrued Benefit is no longer immediately distributable.

Such notification shall include a general description of the material features, and an explanation of the relative values of, the optional forms of benefit available under Part II of the Plan in a manner that would satisfy the notice requirements of Section 417(a)(3) of the Code, and shall be provided no less than 30 days and no more than 90 days (180 days for Plan Years beginning January 1, 2007 and thereafter) prior to the annuity starting date; provided, however, that the minimum 30 day notice period described in this sentence may be waived by the Participant's written waiver given after notice to the Participant has described that the Participant was allowed at least 30 days to consider his choice under this Section and that the Participant was allowed to revoke his waiver under this Section at any time through his or her annuity starting date.

Notwithstanding the foregoing, only the Participant need consent to the commencement of a distribution in the form of a Qualified Joint and Survivor Annuity while the Accrued Benefit is immediately distributable. Neither the consent of the Participant nor the Participant's spouse shall be required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code.

An Accrued Benefit is “ **immediately distributable** ” if any part of the Accrued Benefit could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or Age 62.

Notwithstanding the above, the distribution of the entire interest of a Participant or a Beneficiary must not violate the minimum required distribution rules set forth in Article III of Part III of the Plan.”

7. Effective for annuity starting dates occurring on and after December 1, 2012, Section 5.08(a) of Part II of the Plan is deleted in its entirety, and the following new Section 5.08(a) is substituted in lieu thereof:

“(a) Notwithstanding any provision of Part II of the Plan to the contrary that would otherwise limit a distributee's election under this Article or under Articles VI and VII other than this Section 5.08(a), a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover; provided, however, that if the Actuarial Equivalent present value of a distributee's vested Accrued Benefit does not exceed \$1,000, the distributee does not have to be allowed the eligible rollover election described in this sentence. If the Actuarial Equivalent present value of a Participant's Accrued Benefit exceeds \$1,000 and does not exceed \$5,000 and the Participant does not elect a distribution or a rollover, the Plan shall automatically distribute the Participant's Accrued Benefit, in a direct rollover, to an eligible individual retirement plan (a “ **Rollover IRA** ”) for the benefit of such Participant and pursuant to a written agreement with the Rollover IRA provider that provides (i) the amount rolled over to the Rollover IRA

shall be invested in a manner designed to preserve principal and provide a reasonable rate of return and liquidity; (ii) all fees and expenses attendant to a Rollover IRA shall not exceed the fees and expenses charged by the Rollover IRA provider for comparable IRAs established for reasons other than receipt of a rollover distribution; and (iii) the Participant on whose behalf the automatic rollover is made under this Section shall have the right to enforce the terms of the written agreement establishing the Rollover IRA, with regard to his or her rolled over funds, against the Rollover IRA provider. All fees and expenses attendant to the Rollover IRA shall be allocated to the Rollover IRA.”

8. Effective on and after January 1, 2010, Section 5.08(b)(v) of Part II of the Plan is re-designated as Section 5.08(c) of Part II of the Plan.

9. Effective on October 18, 2012, Section 7.02 of Part II of the Plan is amended to insert the following immediately after Option 2 in Section 7.02 as the last sentence at the end of Option 2 in Section 7.02:

“Notwithstanding anything in Part II of the Plan to the contrary, a timely qualified election by a qualified Former Participant under Section 5.05(f) shall also be treated, to the extent appropriate or necessary, as an election under this Section.”

10. Effective on and after January 1, 2013, Section 7.02 of Part II of the Plan, as changed by this Amendment, is amended to delete the last sentence of Option 2 of Section 7.02 added by this Amendment.

11. Effective on and after October 18, 2012, Section 7.06(b) of Part II of the Plan is amended to delete the first sentence of Section 7.06(b) and to substitute the following as the new first sentence of Section 7.06(b), as follows:

“In the case of the distribution of the present value of a partially vested Employee’s vested Accrued Benefit in accordance with Sections 5.05 or 7.02, the Employee’s Accrued Benefit described in Subsections 2.01(a) and (b) (including all optional forms of benefits and subsidies relating to such benefits) shall be restored if he or she is subsequently an Employee and repays the amount distributed plus interest, compounded annually from the date of distribution at the rate of 5 percent.”

This Second Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment, and except as amended by this Amendment, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF , this Second Amendment has been executed this 17th day of October, 2012.

THE HANOVER INSURANCE COMPANY

Authorized Representative

**THE HANOVER INSURANCE GROUP
CASH BALANCE PENSION PLAN**

THIRD AMENDMENT

This Third Amendment is executed by The Hanover Insurance Company, a New Hampshire corporation (the “**Company**”).

WHEREAS, the Company sponsors The Hanover Insurance Group Cash Balance Pension Plan (the “**Plan**”); and

WHEREAS, the Plan consists of the following three component parts, each of which is set forth in the same document: (i) Part I, which provides a cash balance and pension benefit which were formerly provided under a plan known as “The Allmerica Financial Cash Balance Pension Plan”, and then “The Hanover Insurance Group Cash Balance Pension Plan”, (ii) Part II, which provides a pension benefit which was formerly provided under a plan known as “The Allmerica Financial Agents’ Pension Plan”, and (iii) Part III, which contains Plan terms applicable to each of Part I and Part II; and

WHEREAS, the Plan was most recently amended and restated generally effective January 1, 2010, and such restatement has been amended twice; and

WHEREAS, the Company has the authority to amend the Plan at any time pursuant to Section 10.01 of Part III of the Plan; and

WHEREAS, the Company desires to amend the Plan to encourage payment of the vested deferred benefits of certain terminated former participants for the second time by adding for only a stated, limited period of time certain voluntary lump sum optional forms.

NOW, THEREFORE, the Plan is amended, effective as provided below, as follows:

Part I is amended as follows:

1. Effective on September 20, 2013, Section 2.02 of Part I of the Plan is amended to add the following as the new last sentence of the second paragraph of existing Section 2.02, as follows:

“Except as provided otherwise in this Section, Actuarial Equivalents of the normal form of benefits payable when and as provided under Section 6.06(viii) and Section 8.02(z) will be computed using the Code Section 417 Mortality Table and the Code Section 417 Applicable Interest Rate.”

2. Effective on and after January 1, 2014, the last sentence of the second paragraph of Section 2.02 of Part I of the Plan, as added by this Amendment, is deleted in its entirety.

3. Effective solely for the period beginning September 20, 2013 and ending December 31, 2013, Section 6.06(v) of Part I of the Plan is deleted in its entirety, and the following new Section 6.06(v) is inserted in lieu thereof:

“(v) Notwithstanding anything in Part I of the Plan to the contrary, a single lump sum payment in an amount equal to the Participant’s vested Account Balance on the Determination Date; provided, however, that

except as provided in (vi) below, in (vii) below, and during the period from September 20, 2013 through December 31, 2013, as provided in (viii) below or in Section 8.02(z), this form of payment shall not be available with respect to the Participant's vested Accrued Benefit attributable to the Participant's Grandfathered Benefit, if any, on the Determination Date."

4. Effective on and after January 1, 2014, Section 6.06(v) of Part I of the Plan, as changed by this Amendment, is deleted in its entirety, and the following new Section 6.06(v) is inserted in lieu thereof:

"(v) Notwithstanding anything in Part I of the Plan to the contrary, a single lump sum payment in an amount equal to the Participant's vested Account Balance on the Determination Date; provided, however, that except as provided in (vi) below and (vii) below, this form of payment shall not be available with respect to the Participant's vested Accrued Benefit attributable to the Participant's Grandfathered Benefit, if any, on the Determination Date. In the event a Participant elects to have his or her vested Account Balance on the Determination Date payable in a lump sum under this (v), the portion of his or her Accrued Benefit attributable to his or her Grandfathered Benefit, if any, shall be paid only in accordance with the otherwise applicable provisions of this Article VI of Part I of the Plan."

5. Effective solely for the period beginning September 20, 2013 and ending December 31, 2013, Section 6.06(vi) of Part I of the Plan is deleted in its entirety, and the following new Section 6.06(vi) is inserted in lieu thereof:

"(vi) If the present value of a Participant's vested Grandfathered Benefit, if any, on the Determination Date does not exceed \$5,000, an immediate single sum payment in an amount equal to such present value."

6. Effective on and after January 1, 2014, Section 6.06(vi) of Part I of the Plan, as changed by this Amendment, is deleted in its entirety, and the following new Section 6.06(vi) is inserted in lieu thereof:

"(vi) If the present value of a Participant's vested Grandfathered Benefit, if any, on the Determination Date does not exceed \$5,000, an immediate single sum payment in an amount equal to such present value. If the present value of a Participant's vested Grandfathered Benefit exceeds \$5,000, only annuity options (i) through (iv) above shall be available with respect to such vested Grandfathered Benefit."

7. Effective on September 20, 2013, Section 6.06 of Part I of the Plan is amended to insert the following immediately after Section 6.06(vii), as follows:

"(viii) Notwithstanding anything in Part I of the Plan to the contrary, for distributions elected under this (viii) by a qualified Former Participant during the period beginning September 20, 2013 and ending at midnight on October 31, 2013, either an immediate single sum

payment of the present value of the qualified Former Participant's vested Accrued Benefit in an amount equal to such present value as of the Determination Date, or one of the annuity settlement options described in (i) through (iv) above, to the extent otherwise available, payable beginning immediately on the Determination Date (except that the only immediate annuity settlement options available under this (viii) to a qualified Former Participant whose vested Accrued Benefit is only a Grandfathered Benefit and who is not eligible for early retirement under Section 6.02 or 6.03 on the Determination Date will be the annuity settlement option described in (i) above (and only with a 50% survivor option), a Qualified Joint and Survivor Annuity, and a single life annuity). An election by a qualified Former Participant under this (viii) may not be revoked after November 1, 2013. Solely for purposes of calculating a Former Participant's vested Accrued Benefit under this (viii), an early retirement subsidy or subsidies available for the qualified Former Participant under Section 6.02 or Section 6.03 on the Determination Date or after the Determination Date upon reaching his or her 55th birthday (or later) after the Determination Date shall be included in the vested Accrued Benefit under this (viii). For purposes of this (viii) and Section 8.02(z), a "**qualified Former Participant**" is (1) a Former Participant (a) who was a Former Participant on August 1, 2013 and on November 1, 2013, (b) who is entitled to a vested, deferred Normal Retirement Benefit, (c) who has not received any portion of his or her vested, deferred Grandfathered Benefit by November 1, 2013, (d) who is not a participant in The Hanover Excess Benefit Retirement Plan on November 1, 2013, (e) the Actuarial Equivalent present value of whose vested Accrued Benefit on November 1, 2013 exceeds \$5,000 but does not exceed \$28,000, (f) whose last day as an Employee of an Employer or an Affiliate was before August 1, 2013, (g) who is not a named party in a Domestic Relations Order under review on the Determination Date by the Plan to determine whether it will be a Qualified Domestic Relations Order, (h) who has not become eligible to begin receiving his or her vested deferred Normal Retirement Benefit (other than his or her Account Balance) from the Plan, and (i) who either was not eligible to receive a payment under the Plan's predecessor voluntary cashout opportunity that occurred during December 2012 or was eligible, but due to an inaccurate mailing address did not receive the invitation to participate in that predecessor cashout opportunity, and (2) an alternate payee of a qualified Former Participant, but only if the combined present values of the vested Accrued Benefits of the qualified Former Participant and his or her alternate payee do not exceed \$28,000."

8. Effective on and after January 1, 2014, Section 6.06(viii) of Part I of the Plan, as added by this Amendment, is deleted in its entirety.

9. Effective on September 20, 2013, Section 8.02 of Part I of the Plan is amended to add the following as new Section 8.02(z), as follows:

"(z) Notwithstanding anything in Part I of the Plan to the contrary, effective for distributions elected under this Section 8.02(z) by a qualified Former Participant during the period beginning September 20, 2013 and ending at

midnight on October 31, 2013, a qualified Former Participant (as defined in Section 6.06(viii)) may elect to receive his or her vested Accrued Benefit attributable to such Former Participant's vested Grandfathered Benefit either in an immediate lump sum or in one of the annuity settlement options described in Section 6.06(i) through Section 6.06(iv), to the extent otherwise available, payable beginning immediately on the Determination Date; provided, however, that a qualified Former Participant electing under this Section 8.02(z) to receive an immediate payment of some or all of his or her vested Accrued Benefit attributable to his vested Grandfathered Benefit must also make a qualified election under this Section to receive his or her vested Account Balance in the same immediate payment form as part of the same distribution, and the only immediate annuity settlement options available under this Section 8.02(z) to a qualified Former Participant whose vested Accrued Benefit is only a Grandfathered Benefit and who is not eligible for early retirement under Section 6.02 or Section 6.03 on the Determination Date will be the annuity settlement option described in Section 6.06(i) (and only with a 50% survivor option), a Qualified Joint and Survivor Annuity, and a single life annuity. An election by a qualified Former Participant under this Section 8.02(z) may not be revoked after November 1, 2013. Any spousal consent must satisfy the requirements of Section 6.07. Solely for purposes of calculating a Former Participant's vested Accrued Benefit under this Section 8.02(z), an early retirement subsidy or subsidies available for the qualified Former Participant under Section 6.02 or Section 6.03 on the Determination Date or after the Determination Date upon reaching his or her 55th birthday (or later) after the Determination Date shall be included in the vested Accrued Benefit under this Section 8.02(z)."

10. Effective on and after January 1, 2014, Section 8.02(z) of Part I of the Plan, as added by this Amendment, is deleted in its entirety.

Part II is amended as follows:

1. Effective on September 20, 2013, Section 2.02 of Part II of the Plan is amended to add the following as the new last sentence of the second paragraph of existing Section 2.02, as follows:

"Except as provided otherwise in this Section, Actuarial Equivalents of the normal form of benefits payable when and as provided under Section 5.05(f) and Section 7.02 will be computed using the Code Section 417 Mortality Table and the Code Section 417 Applicable Interest Rate."

2. Effective on and after January 1, 2014, the last sentence of the second paragraph of Section 2.02 of Part II of the Plan, as added by this Amendment, is deleted in its entirety.

3. Effective on September 20, 2013, Section 5.05 of Part II of the Plan is amended to insert the following immediately after Section 5.05(e) as new Section 5.05(f):

"(f) Notwithstanding anything in Part II of the Plan to the contrary, for distributions elected under this Section 5.05(f) by a qualified Former Participant during the period beginning September 20, 2013 and ending at midnight on October 31, 2013, a qualified Former Participant will be

paid either an immediate single sum payment of the present value of the qualified Former Participant's vested Accrued Benefit in an amount equal to such present value as of the Determination Date, or one of the annuity settlement options described in Sections 5.05(a) through 5.05(d) above, to the extent otherwise available, payable beginning immediately on the Determination Date (except that the only immediate annuity settlement options available under this Section 5.05(f) to a qualified Former Participant whose vested Accrued Benefit is only an Accrued Benefit accrued only under Part II of the Plan (and its predecessors) and who is not eligible for early retirement under Section 5.02 on the Determination Date will be the annuity settlement option under Section 5.05(a) (and only with a 50% survivor option), a Qualified Joint and Survivor Annuity, and a single life annuity). An election by a qualified Former Participant under this Section 5.05(f) may not be revoked after November 1, 2013. Solely for purposes of calculating a qualified Former Participant's vested Accrued Benefit under this Section 5.05(f), an early retirement subsidy or subsidies available for the qualified Former Participant under Section 5.02 on the Determination Date or after the Determination Date upon reaching his or her 55th birthday (or later) after the Determination Date shall be included in the vested Accrued Benefit under this Section 5.05(f). For purposes of this Section 5.05 and Section 7.02, a "**qualified Former Participant**" is (1) a Former Participant (a) who was a Former Participant on August 1, 2013 and on November 1, 2013, (b) who is entitled to a vested, deferred Normal Retirement Benefit, (c) who has not received any portion of his or her vested, deferred Normal Retirement Benefit by November 1, 2013, (d) who is not a participant in The Hanover Excess Benefit Retirement Plan on November 1, 2013, (e) the Actuarial Equivalent present value of whose vested Accrued Benefit on November 1, 2013 exceeds \$5,000 but does not exceed \$28,000, (f) whose last day as an Employee of an Employer or an Affiliate was before August 1, 2013, (g) who is not a named party in a Domestic Relations Order under review on the Determination Date by the Plan to determine whether it will be a Qualified Domestic Relations Order, (h) who has not become eligible to begin receiving his or her vested deferred Normal Retirement Benefit (as defined in Part II) from the Plan, and (i) who either was not eligible to receive a payment under the Plan's predecessor voluntary cashout opportunity that occurred during December 2012 or was eligible, but due to an inaccurate mailing address did not receive the invitation to participate in that predecessor cashout opportunity, and (2) an alternate payee of a qualified Former Participant, but only if the combined present values of the vested Accrued Benefits on the Determination Date of the qualified Former Participant and his or her alternate payee do not exceed \$28,000."

4. Effective on and after January 1, 2014, Section 5.05(f) of Part II of the Plan, as added by this Amendment, is deleted in its entirety.

5. Effective on September 20, 2013, Section 7.02 of Part II of the Plan is amended to insert the following immediately after Option 2 in Section 7.02 as the last sentence at the end of Option 2 in Section 7.02:

“Notwithstanding anything in Part II of the Plan to the contrary, a timely qualified election by a qualified Former Participant under Section 5.05(f) shall also be treated, to the extent appropriate or necessary, as an election under this Section.”

6. Effective on and after January 1, 2014, Section 7.02 of Part II of the Plan, as changed by this Amendment, is amended to delete the last sentence of Option 2 of Section 7.02 added by this Amendment.

This Third Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment, and except as amended by this Amendment, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF , this Third Amendment has been executed this 18th day of September, 2013.

THE HANOVER INSURANCE COMPANY

Authorized Representative

**CERTIFICATION AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Frederick H. Eppinger, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Hanover Insurance Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2013

/s/ Frederick H. Eppinger, Jr.

Frederick H. Eppinger, Jr.
President, Chief Executive Officer
and Director

**CERTIFICATION AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, David B. Greenfield, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Hanover Insurance Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2013

/s/ David B. Greenfield

David B. Greenfield
Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as President, Chief Executive Officer and Director of The Hanover Insurance Group, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frederick H. Eppinger, Jr.

Frederick H. Eppinger, Jr.
President, Chief Executive Officer
and Director

Dated: October 31, 2013

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Executive Vice President, Chief Financial Officer and Principal Accounting Officer of The Hanover Insurance Group, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David B. Greenfield

David B. Greenfield
Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer

Dated: October 31, 2013