



## **The Hanover Insurance Group, Inc. Audit Committee Charter**

### *I. Statement of Purpose*

The Audit Committee is a standing committee of the Board of Directors. The purpose of the Committee is to (a) provide assistance to the Board of Directors in overseeing (i) the integrity of the Company's financial statements and related disclosures, (ii) the independent auditor's qualifications, independence and performance, (iii) the performance of the Company's internal audit function, (iv) the Company's compliance with legal and regulatory requirements, and (v) the Company's risk management policies and procedures; and (b) prepare the report required by the Securities and Exchange Commission's rules to be included in the Company's annual proxy statement.

### *II. Organization*

- a. **Charter.** The full Board of Directors shall approve of this charter. At least annually, this charter shall be reviewed and reassessed by this Committee and the Nominating and Corporate Governance Committee and any proposed changes shall be submitted to the Board of Directors for approval.
- b. **Members.** The members of the Committee shall be appointed by the Board of Directors on the recommendation of the Nominating and Corporate Governance Committee (or otherwise as authorized by the Board). Each member shall meet the independence requirements of applicable law and regulation and the listing standards of the New York Stock Exchange, as such requirements may be interpreted by the Board of Directors in its business judgment. The Committee shall be comprised of at least three members. All Audit Committee members shall be financially literate, or shall become financially literate within a reasonable time after appointment. At least one member shall have

accounting or related financial management expertise, as such requirement is interpreted by the Board of Directors in its business judgment. Committee members may be removed by the Board of Directors. The Board of Directors shall also designate a Committee Chairperson. No member of the Committee shall serve on the audit committee of more than three public companies, unless approved by the Board of Directors.

- c. **Meetings.** In order to discharge its responsibilities, the Committee shall each year establish a schedule of meetings and shall meet at least four times per year or more frequently as circumstances require. The Committee shall meet periodically in executive sessions with management (including the Chief Financial Officer), with the General Auditor and with the independent auditor, and have such other direct and independent interaction with such persons from time to time as the members of the Committee deem appropriate. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.
- d. **Quorum; Action by Committee.** A quorum at any Committee meeting shall consist of a majority of the Committee members. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held, except as specifically provided herein (or where only two members are present, by unanimous vote). Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully as effective as if it had been made at a meeting duly called and held.
- e. **Agenda, Minutes and Reports.** The Chairperson of the Committee shall be responsible for establishing the agendas for meetings of the Committee. To the extent appropriate and practicable, an agenda, together with materials relating to the subject matter of each meeting, shall be sent to members of the Committee prior to each meeting. Minutes for all meetings of the Committee shall be prepared and submitted to the Committee for approval. The Committee shall make regular reports to the Board of Directors.

- f. **Performance Evaluation.** In conjunction with the Nominating and Corporate Governance Committee, the Committee shall evaluate its performance on an annual basis.

### *III. Authority and Responsibilities*

The Committee shall have the sole authority and responsibility to appoint, retain and, when deemed appropriate by the Committee, replace the Company's independent auditor. The Committee shall be directly responsible for the compensation, evaluation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to, and is directly accountable to, the Committee.

The Committee shall pre-approve all auditing services, internal control-related services and permitted non-audit services (including the terms thereof) to be performed for the Company by the independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are approved by the Committee prior to the completion of the audit. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including authority to grant pre-approvals of audit and permitted non-audit services, provided that such decisions to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services for the Company and to any advisors employed by the Committee, as well as funding for the payment of ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee, to the extent it deems necessary or appropriate, shall:

*Financial Statement and Disclosure Matters*

- a. Review and discuss with financial management and the independent auditor the annual audited financial statements and quarterly financial statements, and the Company's disclosures under "Management Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-Q and Form 10-K, prior to the filing of the Form 10-Q or Form 10-K. The Committee shall recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
- b. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles.
- c. Discuss with financial management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and ratings agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made). The Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.
- d. Review and discuss analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the Company's financial statements.
- e. Review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.
- f. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61

relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

- g. Review and discuss with management and the independent auditor any major issues as to the adequacy of the Company's internal controls, any special steps adopted in light of identified material control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting.
- h. Review and discuss with management (including the General Auditor) and the independent auditor the Company's internal controls report and the independent auditor's attestation report prior to the filing of the Company's Form 10-K.
- i. Review the reports of the CEO and CFO (in connection with their required certifications in the Company's Forms 10-K and 10-Q and annual audited statutory reports) regarding any significant deficiencies or material weaknesses in the design or operation of internal controls, and any reports from internal audit regarding any fraud that involves management or other employees who have a significant role in the Company's internal controls.

#### *Oversight of the Company's Relationship with the Independent Auditor*

- a. Obtain and review at least annually a written report by the independent auditor describing (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditor, and any steps taken to deal with any such issues, and (c) all relationships and professional services the independent auditor has with the Company, as required by Independence Standard Board Standard No. 1, Independence Discussions with Audit Committees.

- b. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act, pertaining to the independent auditor's required response to audit discoveries, has not been implicated.
- c. Set policies or procedures for any hiring by the Company of employees or former employees of the independent auditor.
- d. Meet with the independent auditors and financial management of the Company to review the scope of the proposed audit and quarterly reviews and generally review the procedures to be utilized in conducting such audit and quarterly reviews.

### *Oversight of the Company's Internal Audit Function*

- a. Review the internal audit function of the Company, including the Internal Audit Charter and the function's leadership and organization, the independence and authority of its reporting obligations, and the proposed audit plans for the coming year. In this regard, all decisions regarding the performance evaluation, appointment, or removal of the General Auditor, as well as the General Auditor's compensation (including any short- or long-term incentive compensation awards) and salary adjustments, shall be subject to the Committee's approval.
- b. Review significant internal audit reports to management and management's responses.

### *Compliance Oversight Responsibilities*

- a. Review the Company's procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.
- b. Discuss with management and the independent auditor all correspondence with regulators or government agencies or published reports that raise material issues regarding the integrity of the Company's financial statements or accounting policies.

- c. Discuss with the Company's General Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies and internal controls.
- d. Review, approve and/or ratify "Related Person Transactions" in accordance with the Company's Policy with respect to Related Person Transactions.

### *Review of Risk Management Policies and Procedures*

- a. In order to assist the Board in assessing major risks facing the Company, discuss with management the Company's major financial and business risk exposures and the steps management has taken to monitor and control such exposures, including the Company's enterprise risk assessment and risk management policies and procedures.
- b. Review other areas of potential risk and the Company's assessment and mitigation efforts with respect to such risks, as requested by the Board from time to time.
- c. While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to prepare financial statements, plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. The basic responsibility of the members of the Committee is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company, including taking into consideration of the factors described in Article 10 of the Certificate of Incorporation of the Company. The financial statements are the responsibility of management, and it is the responsibility of the independent auditor to provide reasonable assurance that audited financial statements are free of material misstatements. Nor is it the duty of the Committee to assure compliance with laws and regulations and the Company's Code of Conduct or other policies. Each member of the Committee shall be entitled to rely on the integrity of those persons and organizations within and outside the Company that provide information to the Committee and the accuracy and completeness of the financial and other information provided to the Committee

by such persons or organizations absent actual knowledge to the contrary.

**Revised and approved on October 18, 2011**