

HANOVER INSURANCE GROUP, INC.
Form 10-Q
October 30, 2015

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, 2015

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 04-3263626
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)
440 Lincoln Street, Worcester, Massachusetts 01653

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(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 43,247,266 as of October 27, 2015.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Statements of Income</u>	2
	<u>Consolidated Statements of Comprehensive Income</u>	3
	<u>Consolidated Balance Sheets</u>	4
	<u>Consolidated Statements of Shareholders' Equity</u>	5
	<u>Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Interim Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
Item 4.	<u>Controls and Procedures</u>	54

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	55
Item 1A.	<u>Risk Factors</u>	56
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
Item 6.	<u>Exhibits</u>	59

<u>SIGNATURES</u>		60
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Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

Three Months Ended Nine Months Ended

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(In millions, except per share data)	September 30,		September 30,	
	2015	2014	2015	2014
Revenues				
Premiums	\$ 1,150.1	\$ 1,184.0	\$ 3,566.9	\$ 3,521.7
Net investment income	68.3	67.5	209.1	201.5
Net realized investment gains (losses):				
Net realized gains from sales and other	12.2	5.2	38.8	31.9
Net other-than-temporary impairment losses on investments recognized in earnings	(4.2)	(0.3)	(8.8)	(0.4)
Total net realized investment gains	8.0	4.9	30.0	31.5
Fees and other income	7.1	9.2	23.3	27.8
Total revenues	1,233.5	1,265.6	3,829.3	3,782.5
Losses and expenses				
Losses and loss adjustment expenses	690.7	755.6	2,208.7	2,231.6
Amortization of deferred acquisition costs	259.0	260.0	781.6	773.3
Interest expense	14.7	16.3	45.5	48.9
Gain on disposal of U.K. motor business	-	-	(37.7)	-
Other operating expenses	158.7	158.4	491.2	473.6
Total losses and expenses	1,123.1	1,190.3	3,489.3	3,527.4
Income before income taxes	110.4	75.3	340.0	255.1
Income tax expense (benefit):				
Current	11.8	(1.1)	46.7	6.5
Deferred	21.4	21.4	40.3	56.4
Total income tax expense	33.2	20.3	87.0	62.9
Income from continuing operations	77.2	55.0	253.0	192.2
Net gain (loss) from discontinued operations (net of tax benefit of \$0.3 and \$0.2 for the three months ended September 30, 2015 and September 30, 2014 and \$0.5 and \$0.4 for the nine months ended September 30, 2015 and September 30, 2014)	1.1	(0.1)	0.9	(0.1)
Net income	\$ 78.3	\$ 54.9	\$ 253.9	\$ 192.1
Earnings per common share:				
Basic:				
Income from continuing operations	\$ 1.75	\$ 1.25	\$ 5.73	\$ 4.37
Net gain (loss) from discontinued operations	0.03	-	0.02	-
Net income per share	\$ 1.78	\$ 1.25	\$ 5.75	\$ 4.37
Weighted average shares outstanding	44.0	44.1	44.1	44.0
Diluted:				
Income from continuing operations	\$ 1.72	\$ 1.22	\$ 5.62	\$ 4.29
Net gain (loss) from discontinued operations	0.02	-	0.02	(0.01)
Net income per share	\$ 1.74	\$ 1.22	\$ 5.64	\$ 4.28
Weighted average shares outstanding	44.9	44.9	45.0	44.9

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2015	2014	2015	2014
Net income	\$ 78.3	\$ 54.9	\$ 253.9	\$ 192.1
Other comprehensive income (loss), net of tax:				
Available-for-sale securities and derivative instruments:				
Net (depreciation) appreciation during the period	(31.2)	(48.7)	(94.7)	32.8
Change in other-than-temporary impairment losses recognized in other comprehensive income	(3.9)	-	(8.3)	1.6
Total available-for-sale securities and derivative instruments	(35.1)	(48.7)	(103.0)	34.4
Pension and postretirement benefits:				
Net actuarial losses and prior service costs arising in the period	-	-	(1.4)	-
Amortization recognized as net periodic benefit and postretirement cost	1.7	1.6	6.8	5.0
Total pension and postretirement benefits	1.7	1.6	5.4	5.0
Cumulative foreign currency translation adjustment:				
Amount recognized as cumulative foreign currency translation during the period	(2.6)	(5.9)	(4.8)	(2.9)
Total other comprehensive (loss) income, net of tax	(36.0)	(53.0)	(102.4)	36.5

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Comprehensive income	\$ 42.3	\$ 1.9	\$ 151.5	\$ 228.6
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Table of ContentsTHE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2015	December 31, 2014
(In millions, except share data)		
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$6,943.1 and \$7,145.7)	\$ 7,084.9	\$ 7,378.1
Equity securities, at fair value (cost of \$527.4 and \$506.6)	550.7	580.8
Other investments	334.9	291.4
Total investments	7,970.5	8,250.3
Cash and cash equivalents	385.1	373.3
Accrued investment income	66.2	66.9
Premiums and accounts receivable, net	1,495.1	1,360.9
Reinsurance recoverable on paid and unpaid losses and unearned premiums	2,731.4	2,268.2
Deferred acquisition costs	527.1	525.7
Deferred income taxes	130.3	131.2
Goodwill	184.0	184.6
Other assets	469.5	486.6
Assets of discontinued operations	81.8	112.0
Total assets	\$ 14,041.0	\$ 13,759.7
Liabilities		
Loss and loss adjustment expense reserves	\$ 6,606.3	\$ 6,391.7
Unearned premiums	2,719.0	2,583.9
Expenses and taxes payable	689.3	695.4
Reinsurance premiums payable	246.5	226.8
Debt	812.8	903.5
Liabilities of discontinued operations	89.6	114.4
Total liabilities	11,163.5	10,915.7
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	1,833.5	1,830.7
Accumulated other comprehensive income	104.0	206.4
Retained earnings	1,749.8	1,558.7
Treasury stock at cost (17.3 and 16.6 million shares)	(810.4)	(752.4)
Total shareholders' equity	2,877.5	2,844.0
Total liabilities and shareholders' equity	\$ 14,041.0	\$ 13,759.7

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

Table of Contents

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(In millions)	Nine Months Ended September 30,	
	2015	2014
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	1,830.7	1,830.1
Employee and director stock-based awards and other	2.8	(2.7)
Balance at end of period	1,833.5	1,827.4
Accumulated Other Comprehensive Income (Loss), net of tax		
Net Unrealized Appreciation on Investments and Derivative Instruments:		
Balance at beginning of period	300.9	259.3
Net (depreciation) appreciation on available-for-sale securities and derivative instruments	(103.0)	34.4
Balance at end of period	197.9	293.7
Defined Benefit Pension and Postretirement Plans:		
Balance at beginning of period	(84.3)	(76.1)
Net amount arising in the period	(1.4)	-
Net amount recognized as net periodic benefit cost	6.8	5.0
Balance at end of period	(78.9)	(71.1)
Cumulative Foreign Currency Translation Adjustment:		
Balance at beginning of period	(10.2)	(5.6)
Amount recognized as cumulative foreign currency translation during the period	(4.8)	(2.9)
Balance at end of period	(15.0)	(8.5)
Total accumulated other comprehensive income	104.0	214.1
Retained Earnings		
Balance at beginning of period	1,558.7	1,349.1
Net income	253.9	192.1
Dividends to shareholders	(54.3)	(48.9)
Stock-based compensation	(8.5)	(3.1)
Balance at end of period	1,749.8	1,489.2
Treasury Stock		
Balance at beginning of period	(752.4)	(762.9)
Shares purchased at cost	(85.3)	(20.4)
Net shares reissued at cost under employee stock-based compensation plans	27.3	23.9
Balance at end of period	(810.4)	(759.4)
Total shareholders' equity	\$ 2,877.5	\$ 2,771.9

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

Table of Contents

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

(In millions)	Nine Months Ended September 30, 2015	2014
Cash Flows From Operating Activities		
Net income	\$ 253.9	\$ 192.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of U.K. motor business	(37.7)	-
Net loss on repurchase of debt	24.1	0.1
Net realized investment gains	(29.6)	(31.5)
Net amortization and depreciation	22.8	25.3
Stock-based compensation expense	9.4	11.1
Amortization of defined benefit plan costs	10.0	7.7
Deferred income tax expense	40.3	56.4
Change in deferred acquisition costs	(21.6)	(34.3)
Change in premiums receivable, net of reinsurance premiums payable	(114.6)	(147.0)
Change in loss, loss adjustment expense and unearned premium reserves	323.8	415.1
Change in reinsurance recoverable	(123.0)	(50.5)
Change in expenses and taxes payable	(5.1)	(55.9)

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Other, net	1.7	19.5
Net cash provided by operating activities	354.4	408.1
 Cash Flows From Investing Activities		
Proceeds from disposals and maturities of fixed maturities	1,272.9	908.9
Proceeds from disposals of equity securities and other investments	243.1	113.2
Purchase of fixed maturities	(1,376.3)	(1,099.4)
Purchase of equity securities and other investments	(285.8)	(261.4)
Cash received from disposal of U.K. motor business, net of cash transferred	44.3	-
Capital expenditures	(14.5)	(8.5)
Other investing activities	4.5	-
Net cash used in investing activities	(111.8)	(347.2)
 Cash Flows From Financing Activities		
Proceeds from exercise of employee stock options	14.3	8.3
Change in cash collateral related to securities lending program	14.1	28.3
Dividends paid to shareholders	(54.3)	(48.9)
Repurchases of debt	(114.3)	(0.7)
Repurchases of common stock	(85.3)	(20.4)
Other financing activities	(3.7)	(2.5)
Net cash used in financing activities	(229.2)	(35.9)
Effect of exchange rate changes on cash	(1.6)	(1.6)
Net change in cash and cash equivalents	11.8	23.4
Net change in cash related to discontinued	-	-

operations

Cash and cash

equivalents, beginning

of period

373.3

486.2

Cash and cash

equivalents, end of

period

\$

385.1

\$

509.6

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

Table of Contents

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 Limited (“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 10 – “Segment Information”. Additionally, the interim consolidated financial statements include the Company’s discontinued operations, consisting primarily of the Company’s former life insurance businesses and its accident and health business. All intercompany accounts and transactions have been eliminated.

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, 2015 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 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 24, 2015.

2. New Accounting Pronouncements

Recently Implemented Standards

In April 2014, the FASB issued Accounting Standards Codification (“ASC”) Update No. 2014-08, (Topic 205 and Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASC update modifies the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. Also, this update requires additional financial statement disclosures about discontinued operations, as well as disposals of an individually significant component of an entity that do not qualify for discontinued operations presentation. This ASC update was effective for all disposals (or classifications as held for sale) of components of an entity that occurred within annual and interim periods beginning on or after December 15, 2014 and for all businesses that, on acquisition, were classified as held for sale that also occurred within interim and annual periods beginning on or after December 15, 2014. The Company implemented this guidance effective January 1, 2015. The effect of implementing this guidance was not material to the Company’s financial position or results of operations.

Recently Issued Standards

In May 2015, the FASB issued ASC Update No. 2015-09, (Topic 944) Financial Services- Insurance: Disclosures about Short-Duration Contracts. This ASC update requires several additional disclosures regarding short-duration insurance contracts, including; disaggregated incurred and paid claims development information, quantitative and qualitative information about claim frequency and duration, and the sum of incurred but not reported (“IBNR”) liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses along with a description of reserving methodologies. This information is required to be presented by accident year, for the number of years for which claims typically remain outstanding, but need not exceed 10 years. A reconciliation of the claims development disclosures to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, including a separate disclosure for reinsurance recoverables is also required for each period presented in the statement of financial position. In addition, this ASC requires insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. The updated guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASC Update 2015-09 to have a material impact on its financial position or results of operations, as the update is disclosure related.

Table of Contents

In April 2015, the FASB issued ASC Update No. 2015-03, (Subtopic 835-30) Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. This ASC update requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of a debt liability, consistent with debt discounts or premiums, and amortization of debt issuance cost shall be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASC update. The updated guidance is to be applied on a retrospective basis and early adoption is permitted. The update is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not expect the adoption of ASC update 2015-03 to have a material impact on its financial position or results of operations.

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) Revenue from Contracts with Customers. This ASC was issued to clarify the principles for recognizing revenue. Insurance Contracts and financial instrument transactions are not within the scope of this updated guidance, and; therefore, only an insignificant amount of the Company's revenue is subject to this updated guidance. In August 2015, the FASB issued ASC Update No. 2015-14, (Topic 606) Revenue from Contracts with Customers, which deferred the effective date of ASC Update No. 2014-09 by one year. Accordingly, the updated guidance is effective for periods beginning after December 15, 2017 and is not expected to have a material effect on the Company's financial position or results of operations.

In August 2014, the FASB issued ASC update No. 2014-15, (Subtopic 205-40) Presentation of Financial Statement-Going Concern. This ASC update provides guidance on determining when and how to disclose going concern uncertainties in the financial statements, and requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. The updated guidance is effective for annual periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. The Company does not expect the adoption of ASC update 2014-15 to have a material impact on its financial position or results of operations.

3. Disposal of U.K. Motor Business

Effective June 30, 2015, the Company transferred its U.K. motor business to an unaffiliated U.K.-based insurance provider. The transaction was executed through a 100 percent reinsurance arrangement for prior claim liabilities and in-force policies written by this division and the sale of two entities associated with this business. Total consideration from the sale of the Chaucer subsidiaries was \$64.9 million and the transaction resulted in a net gain of \$40.3 million.

The components of the gain are as follows:

(in millions)	
Total consideration	\$ 64.9
Less:	
Carrying value of subsidiaries	(7.6)
Intangibles and goodwill disposed (1)	(17.7)
Transaction expenses and employee-related and other costs (2)	(7.7)
Realized gain on investments transferred as part of reinsurance agreement (3)	5.8
Pre-tax gain	37.7
Income tax benefit	2.6

Net gain

\$ 40.3

(1) Reflects \$17.2 million of indefinite-lived intangible assets associated with the U.K. motor business upon THG's purchase of Chaucer in July 2011 and \$0.5 million of goodwill.

(2) Transaction costs include legal, actuarial and other professional fees.

(3) As part of the reinsurance agreement, investments were transferred, resulting in the recognition of net realized investment gains that were previously reflected in accumulated other comprehensive income.

In connection with the reinsurance arrangement, insurance liabilities of approximately \$443 million were ceded, including \$137.4 million of written premiums, and approximately \$419 million of investments, cash, and premiums receivable were transferred. The \$25 million difference between assets and liabilities equals the deferred acquisition costs ("DAC") balance associated with this business; hence, this portion of the transaction resulted in no net gain or loss.

Table of Contents

4. Income Taxes

Income tax expense for the nine months ended September 30, 2015 and 2014 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, 2015, the tax provision is comprised of a \$62.2 million U.S. federal income tax expense and a \$24.8 million foreign income tax expense. For the nine months ended September 30, 2014, the tax provision was comprised of a \$38.7 million U.S. federal income tax expense and a \$24.2 million foreign income tax expense. Income tax expense for the nine months ended September 30, 2014 included a benefit of \$4.4 million related to foreign exchange losses that was deductible on the Company's 2013 U.S. tax return. This permanent tax item was not otherwise recognized in the Company's U.S. GAAP financial statements.

Although most of the Company's non-U.S. income is subject to U.S. federal income tax, a portion of its non-U.S. income is not subject to U.S. federal income tax until repatriated. Income taxes on this portion of 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 \$65.2 million and \$17.2 million of non-U.S. income for the nine months ended September 30, 2015 and 2014, respectively. However, in the future, if these and all other undistributed earnings from prior years were distributed to the Company, taxes of \$44.0 million would be payable on all such undistributed earnings and would be reflected in the tax provision for the year in which these earnings are no longer intended to be indefinitely reinvested overseas, assuming all foreign tax credits are realized.

The Company or its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions, as well as foreign jurisdictions. The Company and its subsidiaries are subject to U.S. federal income tax examinations by tax authorities for years after 2011, U.S. state income tax examinations for years after 2006 and foreign examinations for years after 2011.

5. Debt

Debt consists of the following:

(in millions)	September 30, 2015	December 31, 2014
Senior debentures maturing June 15, 2021	\$ 300.0	\$ 300.0
Senior debentures maturing March 1, 2020	80.0	164.6
Senior debentures maturing October 15, 2025	74.6	81.1
Subordinated debentures maturing March 30, 2053	175.0	175.0
Subordinated debentures maturing February 3, 2027	59.7	59.7
FHLBB borrowings (secured)	125.0	125.0
Total principal debt	\$ 814.3	\$ 905.4
Unamortized debt discount	(1.5)	(1.9)
Total	\$ 812.8	\$ 903.5

During the first nine months of 2015, the Company repurchased senior debentures maturing March 1, 2020, with a carrying value of \$83.7 million at a cost of \$106.0 million, resulting in a loss of \$22.3 million, and senior debentures maturing October 15, 2025, with a carrying value of \$6.5 million at a cost of \$8.3 million, resulting in a loss of \$1.8 million. These losses are included in other operating expenses.

At September 30, 2015, the Company was in compliance with the covenants associated with its debt indentures and credit arrangements.

Table of Contents

6. 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:

(in millions)	September 30, 2015				
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Unrealized Losses
Fixed maturities:					
U.S. Treasury and government agencies	\$ 455.9	\$ 8.8	\$ 1.5	\$ 463.2	\$ -
Foreign government	266.9	3.4	1.7	268.6	-
Municipal	1,086.1	60.3	2.6	1,143.8	-
Corporate	3,702.1	117.8	73.2	3,746.7	19.6
Residential mortgage-backed	811.4	20.3	2.0	829.7	0.3
Commercial mortgage-backed	523.1	12.5	0.6	535.0	-
Asset-backed	97.6	0.5	0.2	97.9	-
Total fixed maturities	\$ 6,943.1	\$ 223.6	\$ 81.8	\$ 7,084.9	\$ 19.9
Equity securities	\$ 527.4	\$ 45.9	\$ 22.6	\$ 550.7	\$ -

(in millions)	December 31, 2014				
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Unrealized Losses
Fixed maturities:					
U.S. Treasury and government agencies	\$ 516.3	\$ 7.6	\$ 3.5	\$ 520.4	\$ -
Foreign government	349.4	5.2	0.6	354.0	-
Municipal	1,079.6	62.4	4.0	1,138.0	-
Corporate	3,746.3	166.3	31.8	3,880.8	7.4
Residential mortgage-backed	770.4	21.7	3.0	789.1	0.4
Commercial mortgage-backed	516.7	12.4	1.3	527.8	-
Asset-backed	167.0	1.2	0.2	168.0	-

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Total fixed maturities	\$ 7,145.7	\$ 276.8	\$ 44.4	\$ 7,378.1	\$ 7.8
Equity securities	\$ 506.6	\$ 76.8	\$ 2.6	\$ 580.8	\$ -

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 \$0.1 million and \$12.3 million as of September 30, 2015 and December 31, 2014, respectively.

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.

(in millions)	September 30, 2015	
	Amortized Cost	Fair Value
Due in one year or less	\$ 411.5	\$ 416.8
Due after one year through five years	2,422.4	2,484.4
Due after five years through ten years	2,129.1	2,145.9
Due after ten years	548.0	575.2
	5,511.0	5,622.3
Mortgage-backed and asset-backed securities	1,432.1	1,462.6
Total fixed maturities	\$ 6,943.1	\$ 7,084.9

Table of Contents

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, 2015 and December 31, 2014 including the length of time the securities have been in an unrealized loss position:

(in millions)	September 30, 2015					
	12 months or less		Greater than 12		Total	
	Gross		Gross		Gross	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Fixed maturities:						
Investment grade:						
U.S. Treasury and government agencies	\$ 0.4	\$ 29.6	\$ 1.1	\$ 70.4	\$ 1.5	\$ 100.0
Foreign governments	1.0	47.2	0.7	6.5	1.7	53.7
Municipal	1.1	61.3	1.5	59.8	2.6	121.1
Corporate	19.4	713.8	11.7	96.5	31.1	810.3
Residential mortgage-backed	0.6	111.7	1.4	47.8	2.0	159.5
Commercial mortgage-backed	0.6	80.3	-	7.5	0.6	87.8
Asset-backed	0.2	29.7	-	1.2	0.2	30.9
Total investment grade	23.3	1,073.6	16.4	289.7	39.7	1,363.3
Below investment grade:						
Corporate	23.4	209.2	18.7	46.5	42.1	255.7
Total fixed maturities	46.7	1,282.8	35.1	336.2	81.8	1,619.0
Equity securities	22.6	210.8	-	-	22.6	210.8
Total	\$ 69.3	\$ 1,493.6	\$ 35.1	\$ 336.2	\$ 104.4	\$ 1,829.8

(in millions)	December 31, 2014					
	12 months or less		Greater than 12		Total	
	Gross		Gross		Gross	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Fixed maturities:						

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Investment grade:

U.S. Treasury and government agencies	\$ -	\$ 52.2	\$ 3.5	\$ 137.9	\$ 3.5	\$ 190.1
Foreign governments	0.4	20.8	0.2	24.2	0.6	45.0
Municipal	0.3	57.1	3.7	140.2	4.0	197.3
Corporate	7.8	393.3	9.3	217.4	17.1	610.7
Residential mortgage-backed	0.2	36.4	2.8	98.0	3.0	134.4
Commercial mortgage-backed	0.4	90.4	0.9	60.8	1.3	151.2
Asset-backed	0.1	46.6	0.1	13.2	0.2	59.8
Total investment grade	9.2	696.8	20.5	691.7	29.7	1,388.5
Below investment grade:						
Corporate	12.2	114.9	2.5	28.3	14.7	143.2
Total fixed maturities	21.4	811.7	23.0	720.0	44.4	1,531.7
Equity securities	2.2	130.2	0.4	3.9	2.6	134.1
Total	\$ 23.6	\$ 941.9	\$ 23.4	\$ 723.9	\$ 47.0	\$ 1,665.8

C. Other investments

D. 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,					
	2015			2014		
	Proceeds	Gross	Gross	Proceeds	Gross	Gross
(in millions)	Sales	Gains	Losses	Sales	Gains	Losses
Fixed maturities	\$ 145.2	\$ 0.7	\$ 0.6	\$ 39.7	\$ 1.1	\$ -
Equity securities	\$ 17.4	\$ 4.1	\$ 0.1	\$ 13.5	\$ 2.4	\$ -

27

	Proceeds from Gross			Proceeds from Gross		
(in millions)	Sales	Gains	Losses	Sales	Gains	Losses
Fixed maturities	\$ 969.9	\$ 13.6	\$ 5.3	\$ 247.8	\$ 4.4	\$ 2.3
Equity securities	\$ 185.2	\$ 24.2	\$ 0.1	\$ 85.9	\$ 26.5	\$ 0.8

Proceeds from sales of fixed maturities for the nine months ended September 30, 2015 included proceeds of \$379.6 million from the transfer of fixed maturity investments in connection with the disposal of the U.K. motor business and related gross gains of \$6.4 million and gross losses of \$0.6 million.

E. Other-than-temporary impairments

For the three months ended September 30, 2015, total OTTI of fixed maturities was \$9.5 million. Of this amount, \$4.2 million was recognized in earnings and the remaining \$5.3 million was recorded as unrealized losses in accumulated other comprehensive income ("AOCI"). For the nine months ended September 30, 2015, total OTTI of fixed maturities and equity securities was \$20.9 million. Of this amount, \$8.8 million was recognized in earnings and the remaining \$12.1 million was recorded as unrealized losses in AOCI.

For the three months ended September 30, 2014, total OTTI of fixed maturities was \$0.3 million, all of which was recognized in earnings. For the first nine months of 2014, total OTTI of fixed maturities was \$0.3 million. Of this amount, \$0.4 million was recognized in earnings including \$0.1 million which was transferred from unrealized losses in accumulated other comprehensive income.

There were no credit impairments in 2014. The methodology and significant inputs used to measure the amount of credit losses on fixed maturities in 2015 were as follows:

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.

Table of Contents

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.

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Credit losses at beginning of period	\$ 6.1	\$ 4.3	\$ 4.2	\$ 7.8
Credit losses for which an OTTI was not previously recognized	2.5	-	5.2	-
Additional credit losses on securities for which an OTTI was previously recognized	1.0	-	1.0	-
Reductions for securities sold, matured or called	-	-	(0.8)	(3.1)
Reductions for securities reclassified as intended to sell	-	-	-	(0.4)
Credit losses at end of period	\$ 9.6	\$ 4.3	\$ 9.6	\$ 4.3

7. 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.

Table of Contents

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.
- 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 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 3 consists of common or preferred stock of private companies for which observable inputs are not available.

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. 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 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.

Table of Contents

Other Investments

Other investments include mortgage participations and other mortgage loans, overseas trust funds required in connection with our Lloyd's business and cost basis limited partnerships. Fair values of mortgage participations and other mortgage loans are estimated by discounting the contractual cash flows using the rates at which similar loans would be made to borrowers with comparable credit ratings and are reported as Level 3. Fair values of overseas trust funds are provided by the investment manager based on quoted prices for similar instruments in active markets and are reported as Level 2. The fair values of cost basis limited partnerships are based on the net asset value provided by the general partner and recent financial information and are reported as Level 3.

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.

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

(in millions)	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 385.1	\$ 385.1	\$ 373.3	\$ 373.3
Fixed maturities	7,084.9	7,084.9	7,378.1	7,378.1
Equity securities	550.7	550.7	580.8	580.8
Other investments	308.7	312.8	267.4	272.2
Total financial assets	\$ 8,329.4	\$ 8,333.5	\$ 8,599.6	\$ 8,604.4
Financial Liabilities				
Debt	\$ 812.8	\$ 943.5	\$ 903.5	\$ 1,021.7

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 2015 and 2014, the Company did not adjust any prices received from brokers or its pricing service.

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.

Table of Contents

The following tables provide, for each hierarchy level, the Company's assets that were measured at fair value on a recurring basis.

(in millions)	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	\$ 463.2	\$ 169.2	\$ 294.0	\$ -
Foreign government	268.6	56.8	211.8	-
Municipal	1,143.8	-	1,113.8	30.0
Corporate	3,746.7	-	3,742.0	4.7
Residential mortgage-backed, U.S. agency backed	751.0	-	751.0	-
Residential mortgage-backed, non-agency	78.7	-	78.7	-
Commercial mortgage-backed	535.0	-	517.3	17.7
Asset-backed	97.9	-	96.7	1.2
Total fixed maturities	7,084.9	226.0	6,805.3	53.6
Equity securities	541.1	539.8	-	1.3
Other investments	101.3	-	97.5	3.8
Total investment assets at fair value	\$ 7,727.3	\$ 765.8	\$ 6,902.8	\$ 58.7

(in millions)	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	\$ 520.4	\$ 233.5	\$ 286.9	\$ -
Foreign government	354.0	43.3	310.7	-
Municipal	1,138.0	-	1,112.3	25.7
Corporate	3,880.8	-	3,871.2	9.6
Residential mortgage-backed, U.S. agency backed	689.2	-	689.2	-
Residential mortgage-backed, non-agency	99.9	-	99.9	-
Commercial mortgage-backed	527.8	-	506.4	21.4
Asset-backed	168.0	-	168.0	-
Total fixed maturities	7,378.1	276.8	7,044.6	56.7
Equity securities	571.5	570.3	-	1.2
Other investments	136.4	-	132.6	3.8
Total investment assets at fair value	\$ 8,086.0	\$ 847.1	\$ 7,177.2	\$ 61.7

Table of Contents

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

(in millions)	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 385.1	\$ 385.1	\$ -	\$ -
Equity securities	9.6	-	9.6	-
Other investments	211.5	-	-	211.5
Liabilities:				
Debt	\$ 943.5	\$ -	\$ 943.5	\$ -

(in millions)	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 373.3	\$ 373.3	\$ -	\$ -
Equity securities	9.3	-	9.3	-
Other investments	135.8	-	-	135.8
Liabilities:				
Debt	\$ 1,021.7	\$ -	\$ 1,021.7	\$ -

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

(in millions)	Fixed Maturities				Total	Equity and Other	Total Assets
	Municipal	Corporate	Commercial mortgage-backed	Asset-backed			
Three Months Ended September 30, 2015							
Balance July 1, 2015	\$ 27.0	\$ 9.4	\$ 18.0	\$ 1.3	\$ 55.7	\$ 5.1	\$ 60.8
Transfers out of Level 3	-	(4.6)	-	-	(4.6)	-	(4.6)
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	0.4	-	(0.1)	(0.1)	0.2	-	0.2	
Purchases and sales:								
Purchases	3.1	-	-	-	3.1	-	3.1	
Sales	(0.5)	(0.1)	(0.3)	-	(0.9)	-	(0.9)	
Balance September 30, 2015	\$ 30.0	\$ 4.7	\$ 17.7	\$ 1.2	\$ 53.6	\$ 5.1	\$ 58.7	
Three Months Ended September 30, 2014								
Balance July 1, 2014	\$ 26.8	\$ 13.2	\$ 22.5	\$ -	\$ 62.5	\$ 4.8	\$ 67.3	
Transfers into Level 3	-	2.2	-	-	2.2	-	2.2	
Total losses:								
Included in other comprehensive income - net depreciation on available-for-sale securities	(0.2)	(0.2)	(0.3)	-	(0.7)	-	(0.7)	
Sales	(0.6)	(0.1)	(0.4)	-	(1.1)	-	(1.1)	
Balance September 30, 2014	\$ 26.0	\$ 15.1	\$ 21.8	\$ -	\$ 62.9	\$ 4.8	\$ 67.7	

Table of Contents

(in millions)	Fixed Maturities					Total	Equity and Other	Total Assets
	Municipal	Corporate	Residential mortgage-backed non-agency	Commercial mortgage-backed	Asset-backed			
Nine Months Ended September 30, 2015								
Balance January 1, 2015	\$ 25.7	\$ 9.6	\$ -	\$ 21.4	\$ -	\$ 56.7	\$ 5.0	\$ 61.7
Transfers into Level 3	-	-	-	-	1.3	1.3	-	1.3
Transfers out of Level 3	-	(4.6)	-	-	-	(4.6)	-	(4.6)
Total gains (losses):								
Included in earnings	-	0.1	-	0.1	-	0.2	-	0.2
Included in other comprehensive income-net (depreciation) appreciation on available-for-sale securities	(0.4)	(0.2)	-	(0.7)	(0.1)	(1.4)	0.1	(1.3)
Purchases and sales:								
Purchases	6.2	-	-	-	-	6.2	-	6.2
Sales	(1.5)	(0.2)	-	(3.1)	-	(4.8)	-	(4.8)
Balance September 30, 2015	\$ 30.0	\$ 4.7	\$ -	\$ 17.7	\$ 1.2	\$ 53.6	\$ 5.1	\$ 58.7
Nine Months Ended September 30, 2014								
Balance January 1, 2014	\$ 25.6	\$ 13.0	\$ 0.5	\$ 22.9	\$ -	\$ 62.0	\$ 42.2	\$ 104.2
Transfers into Level 3	2.2	2.2	-	-	-	4.4	-	4.4
Transfers out of Level 3	(2.6)	-	-	-	-	(2.6)	(37.4)	(40.0)
Total gains:								
Included in other comprehensive income-net appreciation on available-for-sale securities	0.4	-	-	0.4	-	0.8	-	0.8
Purchases and sales:								
Purchases	2.5	-	-	-	-	2.5	-	2.5
Sales	(2.1)	(0.1)	(0.5)	(1.5)	-	(4.2)	-	(4.2)
Balance September 30, 2014	\$ 26.0	\$ 15.1	\$ -	\$ 21.8	\$ -	\$ 62.9	\$ 4.8	\$ 67.7

During the three and nine months ended September 30, 2015 and 2014, 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 nine months ended September 30, 2015 or 2014.

There were no Level 3 liabilities held by the Company for the nine months ended September 30, 2015 and 2014. The following table summarizes changes in fair value that were recorded in net income for Level 3 assets:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014		2014	
(in millions)	Net Investment Income		Net Investment Income	
Level 3 Assets:				
Fixed maturities:				
Corporates	\$ -	\$ -	\$ 0.1	\$ -
Commercial mortgage-backed	0.1	-	0.1	-
Total fixed maturities	\$ 0.1	\$ -	\$ 0.2	\$ -

Table of Contents

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.

	Valuation Technique	Significant Unobservable Inputs	September 30, 2015		December 31, 2014	
			Fair Value	Range (Wtd Average)	Fair Value	Range (Wtd Average)
(in millions)						
Fixed maturities:						
Municipal	Discounted cash flow	Discount for: Small issue size Credit stress Above-market coupon	\$ 30.0	0.6-6.8% (2.7%) 0.9-1.5% (1.2%) 0.3-1.0% (0.4%)	\$ 25.7	0.6-4.5% (2.0%) N/A 0.3-1.0% (0.4%)
Corporate	Discounted cash flow	Discount for: Small issue size Above-market coupon	4.5	1.0% (1.0%) 0.3-0.8% (0.6%)	9.4	0.5-1.0% (0.7%) 0.3-0.8% (0.6%)
Commercial mortgage-backed	Discounted cash flow	Discount for: Small issue size Above-market coupon Lease structure Credit stress	17.7	0.5-1.0% (0.5%) 0.5% (0.5%) 0.3% (0.3%) N/A	21.4	0.5% (0.5%) 0.5-0.8% (0.5%) 0.3% (0.3%) 0.5% (0.5%)
Asset-backed	Discounted cash flow	Discount for: Small issue size	1.2	0.7-0.8% (0.7%)	-	N/A
Equity securities	Market comparables	Net tangible asset market multiples	1.1	1.0X (1.0X)	1.1	1.0X (1.0X)
Other	Discounted cash flow	Discount rate	3.8	18.0% (18.0%)	3.8	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.

Table of Contents

8. 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:

	Three Months Ended September 30,			
	2015	2014	2015	2014
(in millions)	Pension Plans		Postretirement Plans	
Service cost - benefits earned during the period	\$ 0.2	\$ 0.4	\$ -	\$ 0.1
Interest cost	7.4	8.4	0.1	0.2
Expected return on plan assets	(8.0)	(9.2)	-	-
Recognized net actuarial loss	3.1	2.9	-	-
Amortization of prior service cost	-	-	(0.3)	(0.5)
Net periodic pension cost (benefit)	\$ 2.7	\$ 2.5	\$ (0.2)	\$ (0.2)

	Nine Months Ended September 30,			
	2015	2014	2015	2014
(in millions)	Pension Plans		Postretirement Plans	
Service cost - benefits earned during the period	\$ 0.9	\$ 1.1	\$ -	\$ 0.1
Interest cost	22.0	25.3	0.4	0.6
Expected return on plan assets	(23.7)	(27.5)	-	-
Recognized net actuarial loss	10.9	8.7	0.1	-
Amortization of prior service cost	-	0.1	(1.0)	(1.4)
Curtailment gain	(1.8)	-	-	-
Net periodic pension cost (benefit)	\$ 8.3	\$ 7.7	\$ (0.5)	\$ (0.7)

In the second quarter of 2015, the Company recognized a \$1.8 million benefit due to the disposal of the U.K. motor business. Included in the table above in recognized net actuarial loss was an equal and offsetting expense.

Table of Contents

9. Other Comprehensive Income

The following table provides changes in other comprehensive income.

	Three Months Ended September 30, 2015			2014		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
(in millions)						
Unrealized gains (losses) on available-for-sale securities and derivative instruments:						
Unrealized (losses) gains arising during period (net of						
pre-tax, ceded unrealized losses of \$0.4 million for the						
three months ended September 30, 2014)	\$ (47.0)	\$ 16.5	\$ (30.5)	\$ (64.3)	\$ 22.4	\$ (41.9)
Less:						
Amount of realized gains from sales and other	(5.9)	(1.4)	(7.3)	(4.6)	(2.4)	(7.0)
Portion of other-than-temporary impairment losses recognized in earnings	4.2	(1.5)	2.7	0.3	(0.1)	0.2
Net unrealized (losses) gains	(48.7)	13.6	(35.1)	(68.6)	19.9	(48.7)
Pension and postretirement benefits:						
Amortization of net actuarial loss and prior service cost recognized as net periodic benefit cost	2.7	(1.0)	1.7	2.5	(0.9)	1.6
Cumulative foreign currency translation adjustment:						
Foreign currency translation recognized during the period	(4.0)	1.4	(2.6)	(9.2)	3.3	(5.9)
Other comprehensive (loss) income	\$ (50.0)	\$ 14.0	\$ (36.0)	\$ (75.3)	\$ 22.3	\$ (53.0)
	Nine Months Ended September 30, 2015			2014		
	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
(in millions)						
Unrealized gains (losses) on available-for-sale securities and derivative instruments:						
Unrealized (losses) gains arising during period (net of						
pre-tax, ceded unrealized gains of \$0.8 million for the						
nine months ended September 30, 2014)	\$ (120.5)	\$ 42.2	\$ (78.3)	\$ 102.2	\$ (32.9)	\$ 69.3

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Less:

Amount of realized gains from sales and other	(32.3)	1.9	(30.4)	(31.3)	(3.9)	(35.2)
Portion of other-than-temporary impairment losses recognized in earnings	8.8	(3.1)	5.7	0.4	(0.1)	0.3
Net unrealized (losses) gains	(144.0)	41.0	(103.0)	71.3	(36.9)	34.4
Pension and postretirement benefits:						
Net actuarial losses and prior service costs arising in the period	(1.2)	(0.2)	(1.4)	-	-	-
Amortization of net actuarial loss and prior service cost recognized as net periodic benefit cost	10.0	(3.2)	6.8	7.7	(2.7)	5.0
Net pension and postretirement benefits	8.8	(3.4)	5.4	7.7	(2.7)	5.0
Cumulative foreign currency translation adjustment:						
Foreign currency translation recognized during the period	(7.4)	2.6	(4.8)	(4.5)	1.6	(2.9)
Other comprehensive (loss) income	\$ (142.6)	\$ 40.2	\$ (102.4)	\$ 74.5	\$ (38.0)	\$ 36.5

Table of Contents

Reclassifications out of accumulated other comprehensive income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		
(in millions)	2015	2014	2015	2014	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income				Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains on available-for-sale securities and derivative instruments	\$ 5.9	\$ 4.6	\$ 32.3	\$ 31.3	Net realized gains from sales and other Net other-than-temporary impairment losses on investments recognized in earnings
	(4.2)	(0.3)	(8.8)	(0.4)	
	1.7	4.3	23.5	30.9	Total before tax
	2.9	2.4	1.2	3.9	Tax benefit
	4.6	6.7	24.7	34.8	Net of tax
Amortization of defined benefit pension and postretirement plans	(2.7)	(2.5)	(10.0)	(7.7)	Loss adjustment expenses and other operating expenses
	1.0	0.9	3.2	2.7	Tax benefit
	(1.7)	(1.6)	(6.8)	(5.0)	Net of tax
Total reclassifications for the period	\$ 2.9	\$ 5.1	\$ 17.9	\$ 29.8	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 the nine months ended September 30, 2015 and 2014.

Table of Contents

10. 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). As a result of the aforementioned transfer of the Company's U.K. motor business, results from the Chaucer segment will no longer include this business subsequent to June 30, 2015. 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 discontinued voluntary pools business. 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, which also excludes interest expense on debt. Operating income before taxes excludes certain items which are included in net income, 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 before taxes excludes net gains and losses on disposals of business assets, gains and losses related to the repurchase of debt, discontinued operations, costs to acquire businesses, restructuring costs, the cumulative effect of accounting changes and certain other items. Although the items excluded from operating income before taxes may be important components in understanding and assessing the Company's overall financial performance, management believes that the presentation of operating income before taxes enhances an investor's understanding of the Company's results of operations by highlighting net income attributable to the core operations of the business. However, operating income before taxes should not be construed as a substitute for income before income taxes and operating income should not be construed as a substitute for net income.

Table of Contents

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenues:				
Commercial Lines	\$ 601.2	\$ 561.4	\$ 1,786.7	\$ 1,670.3
Personal Lines	379.7	373.9	1,131.4	1,116.3
Chaucer	242.7	323.6	875.5	958.7
Other (including eliminations)	1.9	1.8	5.7	5.7
Total	1,225.5	1,260.7	3,799.3	3,751.0
Net realized investment gains	8.0	4.9	30.0	31.5
Total revenues	\$ 1,233.5	\$ 1,265.6	\$ 3,829.3	\$ 3,782.5
Operating income (loss) before interest expense and income taxes:				
Commercial Lines:				
Underwriting income (loss)	\$ 8.3	\$ 5.9	\$ 10.9	\$ (8.1)
Net investment income	38.7	37.4	116.7	111.9
Other income (expense)	0.1	(0.2)	(1.1)	(0.4)
Commercial Lines operating income	47.1	43.1	126.5	103.4
Personal Lines:				
Underwriting income (loss)	17.9	(12.4)	34.3	(6.7)
Net investment income	18.0	18.0	54.2	53.9
Other income	1.3	1.1	3.1	3.8
Personal Lines operating income	37.2	6.7	91.6	51.0
Chaucer:				
Underwriting income	29.6	25.2	92.7	86.0
Net investment income	10.5	11.0	34.8	32.2
Other income	1.1	3.2	4.9	8.5
Chaucer operating income	41.2	39.4	132.4	126.7
Other:				
Underwriting loss	(0.9)	(0.7)	(2.3)	(2.1)
Net investment income	1.1	1.1	3.4	3.5
Other net expenses	(3.2)	(3.2)	(9.5)	(8.9)
Other operating loss	(3.0)	(2.8)	(8.4)	(7.5)
Operating income before interest expense and income taxes	122.5	86.4	342.1	273.6
Interest on debt	(14.7)	(16.3)	(45.5)	(48.9)
Operating income before income taxes	107.8	70.1	296.6	224.7
Non-operating income items:				
Net realized investment gains	8.0	4.9	30.0	31.5
Net gain on disposal of U.K. motor business	-	-	37.7	-
Net loss from repurchases of debt	(5.6)	(0.1)	(24.1)	(0.1)
Other non-operating items	0.2	0.4	(0.2)	(1.0)

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Income before income taxes	\$ 110.4	\$ 75.3	\$ 340.0	\$ 255.1
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The Company recognized \$2.8 million in net foreign currency transaction losses in the Statements of Income during the three months ended September 30, 2015 compared to \$0.1 million in net foreign currency transaction gains in the Statements of Income during the three months ended September 30, 2014. The Company recognized \$14.9 million and \$5.9 million in net foreign currency transaction gains in the Statements of Income during the nine months ended September 30, 2015 and 2014, respectively.

Table of Contents

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

	September 30, 2015	December 31, 2014
(in millions)	Identifiable Assets	
U.S. Companies	\$ 9,616.9	\$ 9,418.4
Chaucer	4,342.3	4,229.3
Discontinued operations	81.8	112.0
Total	\$ 14,041.0	\$ 13,759.7

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.

11. Stock-based Compensation

As of September 30, 2015, there were 5,340,812 shares, 2,446,944 shares and 714,868 shares available for grant under The Hanover Insurance Group 2014 Long-Term Incentive Plan, The Hanover Insurance Group 2014 Employee Stock Purchase Plan and the Chaucer Share Incentive Plan, respectively.

Compensation cost for the Company's stock-based awards and the related tax benefits were as follows:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
(in millions)				
Stock-based compensation expense	\$ 1.9	\$ 3.8	\$ 9.4	\$ 11.1
Tax benefit	(0.7)	(1.3)	(3.3)	(3.9)
Stock-based compensation expense, net of taxes	\$ 1.2	\$ 2.5	\$ 6.1	\$ 7.2
Stock Options				

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

	Nine Months Ended September 30, 2015		2014	
(in whole shares and dollars)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

Outstanding, beginning of period	2,236,620	\$ 46.61	2,049,173	\$ 41.18
Granted	663,900	70.34	684,200	58.03
Exercised	(377,188)	45.66	(278,368)	38.99
Forfeited or cancelled	(245,974)	59.94	(47,553)	43.77
Outstanding, end of period	2,277,358	52.25	2,407,452	46.17

Included in the table above for the nine months ended September 30, 2015 as forfeited or cancelled were 128,334 options that are no longer expected to vest.

Table of Contents

Restricted Stock Units

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

	Nine Months Ended September 30, 2015		2014	
(in whole shares and dollars)	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Time-based restricted stock units:				
Outstanding, beginning of period	384,923	\$ 45.63	525,980	\$ 41.20
Granted	92,409	70.61	94,240	58.02
Vested	(119,117)	40.94	(225,178)	41.64
Forfeited	(31,573)	51.10	(10,851)	41.82
Outstanding, end of period	326,642	53.88	384,191	45.05
Performance-based and market-based restricted stock units:				
Outstanding, beginning of period	218,338	\$ 44.24	184,626	\$ 40.42
Granted	82,025	48.55	60,338	55.73
Vested	(77,854)	38.82	(22,826)	44.78
Forfeited	(70,951)	55.08	(3,800)	37.90
Outstanding, end of period	151,558	44.27	218,338	44.24

In the first nine months of 2015 and 2014, the Company granted market-based awards totaling 80,738 and 56,625, 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 relative TSR for a three-year period, as compared to a property and casualty index of selected competitor 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. Included in the amount granted above were 38,713 shares related to market-based awards that achieved a payout in excess of 100%, with 20,275 shares becoming vested in the first quarter of 2015 and the remaining 18,438 shares vesting in the first quarter of 2016 provided that the participant remains employed by the Company during the vesting period. Also, reflected in the table above as performance and market based restricted stock forfeitures for 2015 were 56,500 awards that are not expected to vest.

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 participation level. 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. Included in the amounts granted above for the performance-based restricted stock units were 1,287 shares related to awards that a performance metric in excess of 100% was achieved. These awards vested in the first quarter of 2015.

Table of Contents

12. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	2015	2014	2015	2014
Basic shares used in the calculation of earnings per share	44.0	44.1	44.1	44.0
Dilutive effect of securities:				
Employee stock options	0.5	0.4	0.5	0.5
Non-vested stock grants	0.4	0.4	0.4	0.4
Diluted shares used in the calculation of earnings per share	44.9	44.9	45.0	44.9
Per share effect of dilutive securities on income from continuing operations	\$ (0.03)	\$ (0.03)	\$ (0.11)	\$ (0.08)
Per share effect of dilutive securities on net income	\$ (0.04)	\$ (0.03)	\$ (0.11)	\$ (0.09)

All of the common shares issuable under the Company's stock compensation plans were included in the diluted earnings per share for the three months ended September 30, 2015. Diluted earnings per share for the nine months ended September 30, 2015 excludes 0.6 million of common shares issuable under the Company's stock compensation plans because their effect would be antidilutive. Diluted earnings per share for the three and nine months ended September 30, 2014 excluded 0.7 million of common shares because their effect would be antidilutive.

On October 28, 2015, the Company's Board of Directors authorized a \$300 million increase to its existing common stock repurchase program. As a result of this increase, the program provides for aggregate repurchases of up to \$900 million. Under the repurchase authorizations, the Company may repurchase, from time to time, common shares in amounts, at prices and at such times as the Company deems appropriate, subject to market conditions and other considerations. 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 2015, the Company purchased 1.1 million shares of the Company's common stock at a cost of \$85.3 million. Through October 27, 2015, an additional 0.3 million shares were repurchased at a cost of approximately \$24.7 million. As of October 27, 2015, the Company had approximately \$306 million available for repurchases under these repurchase authorizations.

Table of Contents

13. 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 and the Plan understated the accrued benefit in the calculation. The plaintiff claims that the Plan underpaid 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.

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. On March 31, 2011, the District Court granted the Company and the Plan's Motion to Dismiss on statute of limitations grounds the additional claims set forth in (a) and (b) above, however, in response to a motion for reconsideration, the Court allowed the new breach of fiduciary duty claim to stand, but only as to plaintiffs' "whipsaw" claim that remained in the case. On June 22, 2012, the Company and the Plan filed a Partial Motion for Summary Judgment to dismiss the "whipsaw" claim of one of the named plaintiffs who received his lump sum distribution after December 31, 2003. On October 2, 2013, the Court granted the Company and the Plan's Partial Motion for Summary Judgment and dismissed with prejudice the "whipsaw" claim of the named plaintiff who received a lump sum distribution after December 31, 2003 and the similar claims of the putative class members he sought to represent. On December 17, 2013, the Court entered an order certifying a class to bring "whipsaw" and related breach of fiduciary duty claims consisting of all persons who received a lump sum distribution between March 1, 1997 and December 31, 2003, and a subclass to bring such claims consisting of all persons who received lump sum distributions between March 1, 1997 and March 12, 2002. On December 17, 2013, the Court also granted plaintiffs' motion for entry of a final order allowing an immediate appeal by the two named plaintiffs added in the Amended Complaint of their dismissed claims that the 2004 Plan amendment reduced benefits in violation of ERISA, and for one of them, that his post-2003 lump sum distribution should have been greater. On January 14, 2014, the Company filed a Motion to Alter or Amend the Court's December 17, 2013 Order requesting that the Court reverse its order making the dismissed claims final and appealable or, in the alternative, stay merits discovery on the claims remaining in the district court pending resolution of the dismissed plaintiffs' appeal. The Court denied this motion on April 30, 2014. The appeal of the dismissal of the claims of the two named plaintiffs added in the Amended Complaint was filed on May 30, 2014. Oral argument on the appeal took place on June 11, 2015 and the Company awaits the Court's decision. The Company recently filed a Summary Judgment motion based on the statute of limitations that seeks to dismiss a subclass of plaintiffs who received lump sum distributions prior to March 13, 2002. Plaintiffs have objected

to this motion pending additional discovery and the outcome of the foregoing appeal. The trial court has issued a scheduling order that allows for the completion of some discovery, which is now under way, followed by additional summary judgment briefing set to begin in February 2016. A ruling on the Summary Judgment motion is not expected before mid-2016.

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 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.

Table of Contents

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.

Residual Markets

The Company is required to participate in residual markets in various states, which generally pertain to high risk insureds, disrupted markets or lines of business or geographic areas where rates are regarded as excessive. The results of the residual markets are not subject to the predictability associated with the Company's own managed business, and are significant to both the personal and commercial automobile lines of business, the workers' compensation line of business, and the homeowners line of business.

14. Subsequent Events

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.

Table of Contents

PART I

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TABLE OF CONTENTS

<u>Introduction</u>	31
<u>Executive Overview</u>	31
<u>Description of Operating Segments</u>	32
<u>Results of Operations - Consolidated</u>	33
<u>Results of Operations - Segments</u>	34
<u>Investments</u>	43
<u>Other Items</u>	47
<u>Income Taxes</u>	48
<u>Critical Accounting Estimates</u>	49
<u>Statutory Surplus of U.S. Insurance Subsidiaries</u>	49
<u>Lloyd's Capital Requirement</u>	49
<u>Liquidity and Capital Resources</u>	50
<u>Off - Balance Sheet Arrangements</u>	52
<u>Contingencies and Regulatory Matters</u>	52
<u>Risks and Forward - Looking Statements</u>	52

Table of Contents

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 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2015.

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 Limited ("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. Results of operations include our discontinued operations, consisting primarily of our former life insurance businesses and our accident and health business.

Executive Overview

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

Operating income before interest expense and income taxes was \$342.1 million for the nine months ended September 30, 2015, compared to \$273.6 million in the same period in 2014, an increase of \$68.5 million. This increase is due to lower catastrophe losses, a lower expense ratio and to a lesser extent, higher net investment income and higher favorable development on prior years' loss and loss adjustment expense ("LAE") reserves ("prior years' loss reserves") in the first nine months of 2015. Pre-tax catastrophe losses were \$154.6 million for the nine months ended September 30, 2015, compared to \$201.7 million during the same period of 2014. Favorable development on prior years' loss reserves was \$76.2 million for the nine months ended September 30, 2015, compared to favorable development of \$70.8 million during the same period of 2014.

Effective June 30, 2015, we transferred our U.K. motor business to an unaffiliated U.K.-based insurance provider. The transaction was executed through a 100 percent reinsurance arrangement for prior claim liabilities and in-force policies written by this division and the sale of two entities associated with this business. Total consideration from the sale of Chaucer subsidiaries was \$64.9 million and the transaction resulted in an after-tax non-operating net gain of \$40.3 million. See also Part I - Note 3 "Disposal of U.K. Motor Business" in the Notes to Interim Consolidated Financial Statements.

Pricing in our Commercial and Personal Lines remains favorable as we continue to respond to increased weather-related losses over recent years, 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, through rate increases and improvements to our mix of business. At Chaucer, we continue to experience competitive pressure on rates in 2015. In response to these challenging market conditions, we continue to actively manage Chaucer's underwriting portfolio, using our expertise, distinctive underwriting capabilities and market knowledge to target specific attractive underwriting opportunities.

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.

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 6.7% in the first nine months of 2015, driven by both our core commercial and specialty businesses. This growth is primarily due to rate and exposure increases, increased retention and targeted new business expansion.

Underwriting results improved in the first nine months of 2015, as compared to the same period in 2014, due to growth in earned premium, underwriting expense efficiencies, improved current accident year loss performance and lower catastrophe losses, partially offset by an increase in unfavorable development on prior years' loss reserves. 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, and we continue to seek rate increases across our lines of business.

Table of Contents

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 80% 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 2015, as compared to the same period in 2014, primarily due to lower catastrophe losses and, to a lesser extent, improved ex-catastrophe loss performance. We continue to seek rate increases in excess of underlying loss cost trends, subject to regulatory and competitive considerations.

Chaucer

Chaucer deploys specialist underwriters in over 30 major insurance and reinsurance classes, including energy, marine and aviation, property, 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 slightly in the first nine months of 2015, as compared to the same period in 2014, primarily due to increased favorable development on prior years' loss reserves and lower catastrophe losses, partially offset by higher large loss activity in our energy line. Excluding the U.K. motor business, due to the aforementioned transfer effective June 30, 2015, Chaucer net premiums written declined by 2.1% in the first nine months of 2015, primarily due to lower volumes in the energy and property lines, partially offset by growth in the specialist liability line.

Chaucer has continued to experience overall downward pressure on rates during 2015. Rates in the marine, energy, property and casualty markets remained under pressure during the first nine months of 2015 due to high industry capacity, a continued absence of major losses and increased competition in our markets. In response to these challenging market conditions, we continue to actively manage Chaucer's underwriting portfolio, using our expertise, distinctive underwriting capabilities and market knowledge to target specific attractive underwriting opportunities.

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). As a result of the aforementioned transfer of our U.K. motor business, results from our Chaucer segment will no longer include this business subsequent to June 30, 2015. Included in the "Other" segment are Opus Investment Management, Inc., which markets investment management services to institutions, pension funds and other organizations; earnings on holding company assets; and, a discontinued voluntary pools business. 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.

Table of Contents

Results of Operations – Consolidated

Consolidated net income for the three months ended September 30, 2015 was \$78.3 million, compared to \$54.9 million for the three months ended September 30, 2014. The increase of \$23.4 million is primarily due to higher operating income resulting from lower catastrophe losses.

Consolidated net income for the nine months ended September 30, 2015 was \$253.9 million, compared to \$192.1 million for the nine months ended September 30, 2014. The increase of \$61.8 million is primarily due to higher operating income of \$46.6 million, principally from lower catastrophe losses, and a lower expense ratio. Additionally, consolidated net income for the nine months ended September 30, 2015 included the \$40.3 million net gain from the disposal of the U.K. motor business. These increases were partially offset by an increase in net losses from repurchases of debt of \$24.0 million.

In addition to consolidated net income, we assess our financial performance based upon pre-tax “operating income,” 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. Operating income 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 before taxes excludes net gains and losses on disposals of businesses, gains and losses related to the repurchase of debt, discontinued operations, costs to acquire businesses, restructuring costs, the cumulative effect of accounting changes and certain other items. Although the items excluded from operating income 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 highlighting net income attributable to the core operations of the business. However, operating income before taxes should not be construed as a substitute for income before income taxes and operating income should not be construed as a substitute for net income.

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 past 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.

Table of Contents

The following table reflects operating income for each operating segment and a reconciliation of operating income to consolidated net income.

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating income (loss) before interest expense and income taxes:				
Commercial Lines	\$ 47.1	\$ 43.1	\$ 126.5	\$ 103.4
Personal Lines	37.2	6.7	91.6	51.0
Chaucer	41.2	39.4	132.4	126.7
Other	(3.0)	(2.8)	(8.4)	(7.5)
Operating income before interest expense and income taxes	122.5	86.4	342.1	273.6
Interest expense on debt	(14.7)	(16.3)	(45.5)	(48.9)
Operating income before income taxes	107.8	70.1	296.6	224.7
Income tax expense on operating income	(35.6)	(22.4)	(96.9)	(71.6)
Operating income	72.2	47.7	199.7	153.1
Gain on disposal of U.K. motor business, net of tax	-	-	40.3	-
Other non-operating items:				
Net realized investment gains	8.0	4.9	30.0	31.5
Net loss from repurchases of debt	(5.6)	(0.1)	(24.1)	(0.1)
Other	0.2	0.4	(0.2)	(1.0)
Income tax benefit on other non-operating items	2.4	2.1	7.3	8.7
Income from continuing operations, net of taxes	77.2	55.0	253.0	192.2
Net gain (loss) from discontinued operations, net of taxes	1.1	(0.1)	0.9	(0.1)
Net income	\$ 78.3	\$ 54.9	\$ 253.9	\$ 192.1

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:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenues				
Net premiums written	\$ 1,199.6	\$ 1,244.8	\$ 3,570.7	\$ 3,693.3
Net premiums earned	1,150.1	1,184.0	3,566.9	3,521.7
Net investment income	68.3	67.5	209.1	201.5
Other income	7.1	9.2	23.3	27.8
Total operating revenues	1,225.5	1,260.7	3,799.3	3,751.0
Losses and operating expenses				
Losses and LAE	690.7	755.6	2,208.7	2,231.6
Amortization of deferred acquisition costs	259.0	260.0	781.6	773.3
Other operating expenses	153.3	158.7	466.9	472.5
Total losses and operating expenses	1,103.0	1,174.3	3,457.2	3,477.4
Operating income before interest expense and income taxes	\$ 122.5	\$ 86.4	\$ 342.1	\$ 273.6

Table of Contents

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Operating income before interest expense and income taxes was \$122.5 million in the three months ended September 30, 2015, compared to \$86.4 million for the three months ended September 30, 2014, an increase of \$36.1 million. This increase was primarily due to lower catastrophe losses. Catastrophe related activity in the quarter was \$45.8 million, compared to \$88.1 million in the same period of 2014, a decrease of \$42.3 million. Favorable development on prior years' loss reserves was \$22.4 million in the quarter, compared to favorable development of \$21.9 million in the same period in 2014, an increase of \$0.5 million. These improvements were partially offset by higher ex-catastrophe current accident year losses, primarily in the Chaucer segment, due to large loss activity in the energy line.

Net premiums written declined by \$45.2 million in the three months ended September 30, 2015 compared to the three months ended September 30, 2014. This decline was primarily a result of the aforementioned transfer of the U.K. motor division of the Chaucer segment. Excluding the U.K. motor business, net premiums written grew by \$33.2 million, primarily due to rate increases and increased retention in Commercial Lines.

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.

(dollars in millions)	Three Months Ended September 30, 2015						
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Commercial Lines	\$ 701.2	\$ 617.6	\$ 560.4	2.5	62.5	35.8	98.3
Personal Lines	403.0	383.3	358.6	5.6	66.1	28.1	94.2
Chaucer	275.5	198.7	231.1	5.1	44.6	42.6	87.2
Total	\$ 1,379.7	\$ 1,199.6	\$ 1,150.1	4.0	60.1	34.8	94.9

(dollars in millions)	Three Months Ended September 30, 2014						
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Commercial Lines	\$ 656.0	\$ 576.6	\$ 521.9	3.9	61.6	37.1	98.7
Personal Lines	402.3	379.1	353.0	14.6	74.9	27.9	102.8

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Chaucer	329.9	289.1	309.1	5.2	54.8	37.0	91.8
Total	\$ 1,388.2	\$ 1,244.8	\$ 1,184.0	7.4	63.8	34.4	98.2

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.

	Three Months Ended September 30, 2015			2014		
(dollars in millions)	Net Premiums Written	Loss & LAE Ratios	Catastrophe Loss Ratios	Net Premiums Written	Loss & LAE Ratios	Catastrophe Loss Ratios
Commercial Lines:						
Commercial multiple peril	\$ 218.3	59.6	3.3	\$ 199.5	62.5	10.0
Commercial automobile	81.7	71.0	(0.4)	79.3	74.8	1.9
Workers' compensation	66.0	60.8	-	63.7	67.8	-
Other commercial	251.6	62.4	3.4	234.1	54.5	0.8
Total Commercial Lines	\$ 617.6	62.5	2.5	\$ 576.6	61.6	3.9
Personal Lines:						
Personal automobile	\$ 232.3	69.9	1.0	\$ 229.1	72.7	3.7
Homeowners	140.7	62.2	13.8	139.2	81.6	34.9
Other personal	10.3	26.6	5.3	10.8	40.0	2.0
Total Personal Lines	\$ 383.3	66.1	5.6	\$ 379.1	74.9	14.6

Table of Contents

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

(in millions)	Three Months Ended September 30, 2015			2014		
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned
Chaucer:						
Marine and aviation	\$ 81.5	\$ 70.4	\$ 71.2	\$ 80.8	\$ 68.1	\$ 73.1
U.K. motor	46.3	-	-	77.8	78.4	75.5
Property	32.4	29.5	42.5	46.9	38.9	46.9
Energy	28.9	21.4	41.1	57.0	43.3	48.7
Casualty and other	86.4	77.4	76.3	67.4	60.4	64.9
Total Chaucer	\$ 275.5	\$ 198.7	\$ 231.1	\$ 329.9	\$ 289.1	\$ 309.1

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

(in millions)	Three Months Ended September 30, 2015					2014				
	Commercial Lines	Personal Lines	Chaucer	Other	Total	Commercial Lines	Personal Lines	Chaucer	Other	Total
Underwriting profit (loss), excluding prior year reserve development and catastrophes	\$ 33.9	\$ 35.5	\$ 9.4	\$ (0.5)	\$ 78.3	\$ 27.4	\$ 38.5	\$ 18.7	\$ (0.4)	\$ 84.2
Prior year favorable (unfavorable)										
loss and LAE reserve										
development	(11.8)	2.5	32.1	(0.4)	22.4	(1.1)	0.7	22.6	(0.3)	21.9
Pre-tax catastrophe effect	(13.8)	(20.1)	(11.9)	-	(45.8)	(20.4)	(51.6)	(16.1)	-	(88.1)
Underwriting profit (loss)	8.3	17.9	29.6	(0.9)	54.9	5.9	(12.4)	25.2	(0.7)	18.0
	38.7	18.0	10.5	1.1	68.3	37.4	18.0	11.0	1.1	67.5

Net investment income										
Fees and other income	2.1	3.1	1.1	0.8	7.1	2.1	2.9	3.5	0.7	9.2
Other operating (expenses) income	(2.0)	(1.8)	-	(4.0)	(7.8)	(2.3)	(1.8)	(0.3)	(3.9)	(8.3)
Operating income (loss) before interest expense and income taxes	\$ 47.1	\$ 37.2	\$ 41.2	\$ (3.0)	\$ 122.5	\$ 43.1	\$ 6.7	\$ 39.4	\$ (2.8)	\$ 86.4
Commercial Lines										

Commercial Lines net premiums written were \$617.6 million in the three months ended September 30, 2015, compared to \$576.6 million in the three months ended September 30, 2014. This \$41.0 million increase was primarily driven by pricing increases, increased retention and targeted new business expansion.

Commercial Lines underwriting profit for the three months ended September 30, 2015 was \$8.3 million, compared to \$5.9 million for the three months ended September 30, 2014, an increase of \$2.4 million. Catastrophe-related losses for the three months ended September 30, 2015 were \$13.8 million, compared to \$20.4 million for the three months ended September 30, 2014, a decrease of \$6.6 million. Unfavorable development on prior years' loss reserves for the three months ended September 30, 2015 was \$11.8 million, compared to \$1.1 million for the three months ended September 30, 2014, an increase of \$10.7 million.

Commercial Lines current accident year underwriting profit, excluding catastrophes, was \$33.9 million for the three months ended September 30, 2015, compared to \$27.4 million for the three months ended September 30, 2014. This \$6.5 million improvement was primarily due to growth in earned premium and underwriting expense efficiencies.

Pricing in Commercial Lines continues to be favorable as we, and others in the industry, react to reduced investment yields as a result of low interest rates, elevated loss trends in commercial automobile liability lines, recent weather-related losses, and other factors. 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. 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 challenging economic environment.

Table of Contents

Personal Lines

Personal Lines net premiums written were \$383.3 million in the three months ended September 30, 2015, compared to \$379.1 million in the three months ended September 30, 2014, an increase of \$4.2 million. This was due primarily to increased rates in both our personal automobile and homeowners lines of business.

Net premiums written in the personal automobile line of business for the three months ended September 30, 2015 were \$232.3 million compared to \$229.1 million for the three months ended September 30, 2014, an increase of \$3.2 million. This was primarily due to rate increases, which offset a decline in policies in force of 2.5%. Net premiums written in the homeowners line of business for the three months ended September 30, 2015 were \$140.7 million compared to \$139.2 million for the three months ended September 30, 2014, an increase of \$1.5 million. This is attributable to rate increases which offset a decline in policies in force of 1.8%. The declines in policies in force in the personal automobile and homeowners lines were principally attributable to our exposure management actions over the last 12 months and lower new business growth in the quarter.

Personal Lines underwriting profit for the three months ended September 30, 2015 was \$17.9 million, compared to a loss of \$12.4 million for the three months ended September 30, 2014, an improvement of \$30.3 million. Catastrophe losses for the three months ended September 30, 2015 were \$20.1 million, compared to \$51.6 million for the three months ended September 30, 2014, a decrease of \$31.5 million. Favorable development on prior years' loss reserves for the three months ended September 30, 2015 was \$2.5 million, compared to \$0.7 million for the three months ended September 30, 2014, an increase of \$1.8 million.

Personal Lines current accident year underwriting profit, excluding catastrophes, was \$35.5 million in the three months ended September 30, 2015, compared to \$38.5 million for the three months ended September 30, 2014. This \$3.0 million decrease was primarily a result of higher losses, primarily in our homeowners line and principally attributable to large fire losses.

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, the volatility of weather-related losses, and regulatory and legal developments. We monitor these trends and consider them in rate actions.

Chaucer

Chaucer's net premiums written were \$198.7 million for the three months ended September 30, 2015, compared to \$289.1 million for the three months ended September 30, 2014. This decline of \$90.4 million was primarily due to the aforementioned transfer of the U.K. motor business. Excluding the U.K. motor business, net premiums written declined by \$12.0 million or 5.7%, primarily due to lower volumes in the energy and property lines, partially offset by growth in the specialist liability line.

Chaucer's underwriting profit for the three months ended September 30, 2015 was \$29.6 million, compared to \$25.2 million for the three months ended September 30, 2014, an increase of \$4.4 million. This increase is primarily due to increased favorable development on prior years' loss reserves and lower catastrophe losses, partially offset by higher large loss activity in our energy line and a higher expense ratio. Favorable development on prior years' loss reserves for the three months ended September 30, 2015 was \$32.1 million, compared to \$22.6 million for the three months ended September 30, 2014, an increase of \$9.5 million. Catastrophe losses for the three months ended September 30, 2015 were \$11.9 million, compared to \$16.1 million for the three months ended September 30, 2014, a decrease of \$4.2 million.

Chaucer's current accident year underwriting profit, excluding catastrophes, was \$9.4 million in the three months ended September 30, 2015, compared to \$18.7 million for the three months ended September 30, 2014. This \$9.3 million decline was primarily due to higher large losses in the energy line.

We continue to experience significant competition across the international insurance industry. Current pricing conditions in marine, energy, and property continue to be affected by an absence of major industry losses, by new capital from a variety of sources and high levels of competition. 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 \$3.0 million for the three months ended September 30, 2015, compared to \$2.8 million for the three months ended September 30, 2014, a change of \$0.2 million.

Table of Contents

Nine months ended September 30, 2015 Compared to Nine months ended September 30, 2014

Operating income before interest expense and income taxes was \$342.1 million in the nine months ended September 30, 2015, compared to \$273.6 million for the nine months ended September 30, 2014, an increase of \$68.5 million. This increase was due primarily to lower catastrophe losses, a lower expense ratio, higher net investment income and higher favorable development on prior years' loss reserves. Catastrophe-related activity for the nine months ended September 30, 2015 was \$154.6 million, compared to \$201.7 million in the same period of 2014, a decrease of \$47.1 million. Favorable development on prior years' loss reserves was \$76.2 million in the nine months ended September 30, 2015, compared to \$70.8 million in the same period in 2014, an increase of \$5.4 million.

Excluding the U.K. motor business, net premiums written increased by \$114.8 million in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. This increase was primarily driven by pricing increases, increased retention, and targeted new business expansion primarily in the Commercial Lines.

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.

(dollars in millions)	Nine Months Ended September 30, 2015			Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned				
Commercial Lines	\$ 2,000.1	\$ 1,768.6	\$ 1,663.6	4.3	63.1	36.1	99.2
Personal Lines	1,153.9	1,088.0	1,068.2	6.2	68.2	27.9	96.1
Chaucer	1,116.2	714.1	835.1	2.1	51.4	37.5	88.9
Total	\$ 4,270.2	\$ 3,570.7	\$ 3,566.9	4.3	61.9	34.0	95.9

(dollars in millions)	Nine Months Ended September 30, 2014			Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned				
Commercial Lines	\$ 1,866.8	\$ 1,656.9	\$ 1,552.2	5.0	63.4	36.9	100.3
Personal Lines	1,140.8	1,069.1	1,053.5	9.2	71.9	28.0	99.9
Chaucer	1,212.3	967.3	916.0	2.9	53.3	37.3	90.6
Total	\$ 4,219.9	\$ 3,693.3	\$ 3,521.7	5.7	63.3	34.4	97.7

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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.

(dollars in millions)	Nine Months Ended September 30, 2015			2014		
	Net Premiums Written	Loss & LAE Ratios	Catastrophe Loss Ratios	Net Premiums Written	Loss & LAE Ratios	Catastrophe Loss Ratios
Commercial Lines:						
Commercial multiple peril	\$ 586.8	61.5	7.8	\$ 544.1	64.1	12.2
Commercial automobile	237.6	73.7	0.2	231.9	76.4	0.7
Workers' compensation	207.5	62.6	-	193.6	68.7	-
Other commercial	736.7	61.1	4.0	687.3	56.9	2.2
Total Commercial Lines	\$ 1,768.6	63.1	4.3	\$ 1,656.9	63.4	5.0
Personal Lines:						
Personal automobile	\$ 681.5	70.7	0.5	\$ 668.2	72.0	1.4
Homeowners	377.8	66.2	16.5	370.9	74.1	23.3
Other personal	28.7	35.1	3.1	30.0	40.2	3.0
Total Personal Lines	\$ 1,088.0	68.2	6.2	\$ 1,069.1	71.9	9.2

Table of Contents

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

(in millions)	Nine Months Ended September 30, 2015			2014		
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned
Chaucer:						
Marine and aviation	\$ 277.6	\$ 224.2	\$ 214.0	\$ 291.5	\$ 229.0	\$ 209.2
U.K. motor	185.9	(8.3)	135.4	250.8	229.1	235.2
Property	212.7	143.2	125.7	221.8	157.1	141.6
Energy	162.7	107.1	140.0	197.2	132.6	149.9
Casualty and other	277.3	247.9	220.0	251.0	219.5	180.1
Total Chaucer	\$ 1,116.2	\$ 714.1	\$ 835.1	\$ 1,212.3	\$ 967.3	\$ 916.0

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

(in millions)	Nine Months Ended September 30, 2015					2014				
	Commercial Lines	Personal Lines	Chaucer	Other	Total	Commercial Lines	Personal Lines	Chaucer	Other	Total
Underwriting profit (loss), excluding prior year reserve development and catastrophes	\$ 100.5	\$ 94.2	\$ 20.6	\$ (1.3)	\$ 214.0	\$ 73.0	\$ 86.6	\$ 41.5	\$ (1.1)	\$ 200.0
Prior year favorable (unfavorable)										
loss and LAE reserve development	(18.7)	6.6	89.3	(1.0)	76.2	(3.5)	3.9	71.4	(1.0)	70.8
Pre-tax catastrophe effect	(70.9)	(66.5)	(17.2)	-	(154.6)	(77.6)	(97.2)	(26.9)	-	(201.7)
Underwriting profit (loss)	10.9	34.3	92.7	(2.3)	135.6	(8.1)	(6.7)	86.0	(2.1)	69.1

Net investment income	116.7	54.2	34.8	3.4	209.1	111.9	53.9	32.2	3.5	201.5
Fees and other income	6.4	9.0	5.6	2.3	23.3	6.2	8.9	10.5	2.2	27.8
Other operating expenses	(7.5)	(5.9)	(0.7)	(11.8)	(25.9)	(6.6)	(5.1)	(2.0)	(11.1)	(24.8)
Operating income (loss) before interest expense and income taxes	\$ 126.5	\$ 91.6	\$ 132.4	\$ (8.4)	\$ 342.1	\$ 103.4	\$ 51.0	\$ 126.7	\$ (7.5)	\$ 273.6
Commercial Lines										

Commercial Lines net premiums written were \$1,768.6 million in the nine months ended September 30, 2015, compared to \$1,656.9 million in the nine months ended September 30, 2014. This \$111.7 million increase was primarily driven by pricing increases, increased retention, and targeted new business expansion.

Commercial Lines underwriting profit for the nine months ended September 30, 2015 was \$10.9 million, compared to a loss of \$8.1 million for the nine months ended September 30, 2014, an improvement of \$19.0 million.

Catastrophe-related losses for the nine months ended September 30, 2015 were \$70.9 million, compared to \$77.6 million for the nine months ended September 30, 2014, a decrease of \$6.7 million. Unfavorable development on prior years' loss reserves for the nine months ended September 30, 2015 was \$18.7 million, compared to \$3.5 million for the nine months ended September 30, 2014, an increase of \$15.2 million.

Commercial Lines current accident year underwriting profit, excluding catastrophes, was \$100.5 million for the nine months ended September 30, 2015, compared to \$73.0 million for the nine months ended September 30, 2014. This \$27.5 million improvement was primarily due to growth in earned premium, underwriting expense efficiencies, and improved loss performance in all major lines of business that resulted from our pricing and underwriting actions.

Personal Lines

Personal Lines net premiums written were \$1,088.0 million in the nine months ended September 30, 2015, compared to \$1,069.1 million in the nine months ended September 30, 2014, an increase of \$18.9 million. This was due primarily to increased rates in both the personal automobile and homeowners lines of business, increased new business volume and improved retention.

Table of Contents

Net premiums written in the personal automobile line of business for the nine months ended September 30, 2015 were \$681.5 million compared to \$668.2 million for the nine months ended September 30, 2014, an increase of \$13.3 million. This increase was primarily due to rate increases, partially offset by a decline in policies in force of 2.5%. Net premiums written in the homeowners line of business for the nine months ended September 30, 2015 were \$377.8 million, compared to \$370.9 million for the nine months ended September 30, 2014, an increase of \$6.9 million. This is attributable to rate increases which offset a decline in policies in force of 1.8%. The declines in policies in force in the personal automobile and homeowners lines were principally attributable to our exposure management actions over the last 12 months.

Personal Lines underwriting profit for the nine months ended September 30, 2015 was \$34.3 million, compared to a loss of \$6.7 million for the nine months ended September 30, 2014, an improvement of \$41.0 million. Catastrophe losses for the nine months ended September 30, 2015 were \$66.5 million, compared to \$97.2 million for the nine months ended September 30, 2014, a decrease of \$30.7 million. Favorable development on prior years' loss reserves for the nine months ended September 30, 2015 was \$6.6 million, compared to \$3.9 million for the nine months ended September 30, 2014, an increase of \$2.7 million.

Personal Lines current accident year underwriting profit, excluding catastrophes, was \$94.2 million in the nine months ended September 30, 2015, compared to \$86.6 million for the nine months ended September 30, 2014. This \$7.6 million improvement was primarily a result of our ongoing pricing and underwriting actions in both lines of business.

Chaucer

Chaucer's net premiums written were \$714.1 million for the nine months ended September 30, 2015, compared to \$967.3 million for the nine months ended September 30, 2014. This decline of \$253.2 million was primarily due to the aforementioned transfer of the U.K. motor business. Excluding the U.K. motor business, net premiums written declined by \$15.8 million or 2.1%, primarily due to lower volumes in the energy and property lines, partially offset by growth in the specialist liability line.

Chaucer's underwriting profit for the nine months ended September 30, 2015 was \$92.7 million, compared to \$86.0 million for the nine months ended September 30, 2014, an increase of \$6.7 million. This increase is primarily due to higher favorable development on prior years' loss reserves and lower catastrophe losses, partially offset by higher large loss activity in the energy line. Favorable development on prior years' loss reserves for the nine months ended September 30, 2015 was \$89.3 million, compared to \$71.4 million for the nine months ended September 30, 2014, an increase of \$17.9 million. Catastrophe losses for the nine months ended September 30, 2015 were \$17.2 million, compared to \$26.9 million for the nine months ended September 30, 2014, a decrease of \$9.7 million.

Chaucer's current accident year underwriting profit, excluding catastrophes, was \$20.6 million in the nine months ended September 30, 2015, compared to \$41.5 million for the nine months ended September 30, 2014. This \$20.9 million decline was primarily due to higher large losses in the energy line, partially offset by lower losses in the marine and aviation lines.

Other

Other operating loss was \$8.4 million for the nine months ended September 30, 2015, compared to \$7.5 million for the nine months ended September 30, 2014, an increase of \$0.9 million.

Table of Contents

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.

(in millions)	Nine Months Ended September 30,	
	2015	2014
Gross loss and LAE reserves, beginning of period	\$ 6,391.7	\$ 6,231.5
Reinsurance recoverable on unpaid losses	1,983.0	2,030.4
Net loss and LAE reserves, beginning of period	4,408.7	4,201.1
Net incurred losses and LAE in respect of losses occurring in:		
Current year	2,284.9	2,302.4
Prior years	(76.2)	(70.8)
Total incurred losses and LAE	2,208.7	2,231.6
Net payments of losses and LAE in respect of losses occurring in:		
Current year	853.1	932.4
Prior years	1,145.6	1,093.9
Total payments	1,998.7	2,026.3
Transfer of U.K. motor business	(300.6)	-
Effect of foreign exchange rate changes	(20.3)	(25.3)
Net reserve for losses and LAE, end of period	4,297.8	4,381.1
Reinsurance recoverable on unpaid losses	2,308.5	2,053.9
Gross reserve for losses and LAE, end of period	\$ 6,606.3	\$ 6,435.0

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

(in millions)	September 30, 2015	December 31, 2014
Commercial multiple peril	\$ 709.9	\$ 661.5
Workers' compensation	640.1	615.2
Commercial automobile	323.2	307.8
AIX	354.0	342.9
Other	584.5	510.1
Total Commercial and Other	2,611.7	2,437.5
Personal automobile	1,409.0	1,407.0
Homeowners and other	132.3	121.4
Total Personal	1,541.3	1,528.4
Total Chaucer	2,453.3	2,425.8
Total loss and LAE reserves	\$ 6,606.3	\$ 6,391.7

Other lines are primarily comprised of our general liability, professional and management liability, umbrella, marine, surety, voluntary pools, and healthcare lines. Included in the above table, primarily in other lines, are \$58.9 million and \$60.6 million of asbestos and environmental reserves as of September 30, 2015 and December 31, 2014, respectively. Included in the Chaucer segment in the above table are \$190.7 million and \$203.3 million of reserves as of September 30, 2015 and December 31, 2014, respectively, related to Chaucer's financial and professional liability lines written in 2008 and prior periods.

Table of Contents

Prior Year Development

Loss and LAE reserves for claims occurring in prior years developed favorably by \$76.2 million for the nine months ended September 30, 2015 compared to favorable development of \$70.8 million for the nine months ended September 30, 2014.

The primary drivers of reserve development for the nine months ended September 30, 2015 were as follows:

- Lower than expected losses within Chaucer's business as follows:
 - energy line, primarily in the 2012 through 2014 accident years;
 - marine and aviation lines, primarily in the 2011, 2013 and 2014 accident years;
 - favorable impact of foreign exchange rate movements on prior years' loss reserves;
 - within casualty and other lines, specialist and international liability lines, primarily in the 2012 and 2013 accident years; and
 - property line, primarily in the 2013 and 2014 accident years.
- Lower than expected losses, primarily related to our marine, healthcare and umbrella lines in accident years 2009 through 2014, reflected in our other commercial lines.
- Lower than expected losses within our workers' compensation line, primarily related to accident years 2010 through 2014.
- Lower than expected losses within our personal automobile line, primarily related to accident year 2014.

Partially offsetting the favorable development discussed above was higher than expected losses in the following lines of business, including our AIX program business within other commercial lines:

- Commercial automobile lines, primarily related to liability coverage in accident years 2011 through 2013.
- General liability lines, primarily in accident years 2011 through 2013.
- Commercial multiple peril lines, primarily in accident years 2008, 2009, 2011 and 2014.

The primary drivers of reserve development for the nine months ended September 30, 2014 were as follows:

- Lower than expected losses within Chaucer's business as follows:
 - marine and aviation lines, primarily in the 2011 through 2013 accident years;
 - within casualty and other lines, specialist liability lines, primarily in the 2010 and 2013 accident years;
 - property line, primarily in the 2010 through 2013 accident years; and
 - favorable impact of foreign exchange rate movements on prior years' loss reserves.
- Lower than expected losses within our commercial multiple peril line, primarily related to accident years 2012 and 2013.
- Lower than expected losses within our workers' compensation line, primarily related to accident years 2007 through 2012.
- Lower than expected losses within our personal automobile line, primarily related to accident years 2012 through 2013.

Partially offsetting the favorable development discussed above was the following:

- Higher than expected large losses within our commercial automobile line, primarily related to liability coverage in accident years 2009 through 2012.

It is not possible to know whether the factors that affected loss reserves in the first nine months of 2015 will also occur in future periods. As discussed in detail in our Form 10-K for the year ended December 31, 2014, 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.

Table of Contents

Investments

Investment Results

Net investment income before taxes increased \$0.8 million, or 1.2%, to \$68.3 million for the three months ended September 30, 2015, and \$7.6 million, or 3.8%, to \$209.1 million for the nine months ended September 30, 2015. The increase in both periods was primarily due to the investment of higher operational cash flows, additional income from our growing asset classes such as commercial mortgage loan participations, partnerships and equities, and to lower investment expenses. These increases were partially offset by the impact of lower new money yields, the effect of lower investment assets associated with the transfer of the U.K. motor business, and from the repurchases of our senior debt. Average pre-tax earned yields on fixed maturities were 3.64% and 3.68% for the three months ended September 30, 2015 and 2014, respectively, and 3.61% and 3.73% for the nine months ended September 30, 2015 and 2014, respectively. We expect average fixed maturity investment yields to continue to decline as new money rates remain lower than embedded book yields. Total pre-tax earned yields were 3.45% and 3.39% for the three months ended September 30, 2015 and 2014, respectively, and 3.43% for the nine months ended September 30, 2015 and 2014.

Investment Portfolio

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

	September 30, 2015			December 31, 2014		
	Carrying	% of		Carrying	% of	
(dollars in millions)	Value	Total		Value	Total	
Fixed maturities, at fair value	\$ 7,084.9	84.8 %		\$ 7,378.1	85.6 %	
Equity securities, at fair value	550.7	6.6		580.8	6.7	
Cash and cash equivalents	385.1	4.6		373.3	4.3	
Other investments	334.9	4.0		291.4	3.4	
Total cash and investments	\$ 8,355.6	100.0 %		\$ 8,623.6	100.0 %	

Cash and Investments

Total cash and investments decreased \$268.0 million, or 3.1%, for the nine months ended September 30, 2015 primarily as a result of the transfer of the U.K. motor business. Fixed maturities decreased \$293.2 million primarily due to dispositions of \$384.5 million related to the transfer of the U.K. motor business and from market value depreciation, partially offset by the investment of positive operational cash flows. The decrease in equity

securities was primarily due to market value depreciation, partially offset by the purchase of dividend yielding stocks. The increase in other invested assets includes our participation in commercial mortgage loan originations.

Our fixed maturity portfolio is comprised of corporate securities, taxable and tax-exempt municipal securities, residential mortgage-backed securities, commercial mortgage-backed securities, U.S. government securities, foreign government securities and asset-backed securities. Equity securities primarily consist of developed market equity index exchange traded funds and income-oriented large capitalization common stocks.

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

(in millions)	September 30, 2015		Net Unrealized Gain	Change in Net Unrealized During 2015
	Amortized Cost	Fair Value		
Investment Type				
U.S. Treasury and government agencies	\$ 455.9	\$ 463.2	\$ 7.3	\$ 3.2
Foreign government	266.9	268.6	1.7	(2.9)
Municipals:				
Taxable	966.1	1,020.5	54.4	(0.3)
Tax exempt	120.0	123.3	3.3	(0.4)
Corporate	3,702.1	3,746.7	44.6	(89.9)
Asset-backed:				
Residential mortgage-backed	811.4	829.7	18.3	(0.4)
Commercial mortgage-backed	523.1	535.0	11.9	0.8
Asset-backed	97.6	97.9	0.3	(0.7)
Total fixed maturities	\$ 6,943.1	\$ 7,084.9	\$ 141.8	\$ (90.6)

Table of Contents

Net unrealized gains on fixed maturities decreased \$90.6 million, or 39%, to \$141.8 million at September 30, 2015, compared to \$232.4 million at December 31, 2014, primarily due to widening of credit spreads.

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

(in millions)		September 30, 2015				December 31, 2014			
NAIC	Rating Agency	Amortized Cost	Fair Value	% of Total Fair Value		Amortized Cost	Fair Value	% of Total Fair Value	
Designation	Designation								
1	Aaa/Aa/A	\$ 4,900.9	\$ 5,046.9	71.2	%	\$ 5,197.8	\$ 5,365.7	72.7	%
2	Baa	1,592.7	1,620.9	22.9		1,516.7	1,580.9	21.4	
3	Ba	230.1	222.3	3.1		199.2	205.0	2.8	
4	B	174.7	165.9	2.3		197.4	194.2	2.6	
5	Caa and lower	39.6	26.1	0.4		30.1	27.7	0.4	
6	In or near default	5.1	2.8	0.1		4.5	4.6	0.1	
Total fixed maturities		\$ 6,943.1	\$ 7,084.9	100.0	%	\$ 7,145.7	\$ 7,378.1	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, 2015 and December 31, 2014. 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 1% of the total assets we measured at fair value. (See also Note 7 – “Fair Value” in the Notes to Interim Consolidated Financial Statements).

Other investments consisted primarily of participations in commercial mortgage loan obligations and overseas deposits. Commercial mortgage loan participations represent our interest in commercial mortgage loans originated by a third party. We share, on a pro-rata basis, in all related cash flows of the underlying mortgage loans, which are investment-grade quality and diversified by geographic area and property type. Overseas deposits 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 Chaucer 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.

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, below investment grade fixed maturities and other investment assets.

Other-than-Temporary Impairments

For the three months ended September 30, 2015, we recognized in earnings \$4.2 million of other-than-temporary impairments (“OTTI”) on debt securities, of which \$3.5 million related to the estimated credit losses on bonds primarily in the energy sector and \$0.7 million related to bonds we intend to sell. For the nine months ended September 30, 2015, we recognized in earnings \$8.8 million of OTTI on debt and equity securities. OTTI on debt securities included an estimated \$6.2 million of credit losses on bonds primarily in the energy sector and \$1.8 million on bonds that we intend to sell, comprised primarily of municipal and energy sector securities. For the three and nine months ended September 30, 2014, OTTI recognized in earnings was \$0.3 million and \$0.4 million, respectively.

Table of Contents

Unrealized Losses

The following table provides information about our fixed maturities and equity securities that were in an unrealized loss position including the length of time the securities have been in an unrealized loss position. (See also Note 6 – “Investments” in the Notes to Interim Consolidated Financial Statements.)

	September 30, 2015		December 31, 2014	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(in millions)				
Fixed maturities:				
Investment grade:				
12 months or less	\$ 23.3	\$ 1,073.6	\$ 9.2	\$ 696.8
Greater than 12 months	16.4	289.7	20.5	691.7
Total investment grade fixed maturities	39.7	1,363.3	29.7	1,388.5
Below investment grade:				
12 months or less	23.4	209.2	12.2	114.9
Greater than 12 months	18.7	46.5	2.5	28.3
Total below investment grade fixed maturities	42.1	255.7	14.7	143.2
Equity securities:				
12 months or less	22.6	210.8	2.2	130.2
Greater than 12 months	-	-	0.4	3.9
Total equity securities	22.6	210.8	2.6	134.1
Total	\$ 104.4	\$ 1,829.8	\$ 47.0	\$ 1,665.8

Gross unrealized losses at September 30, 2015 increased \$57.4 million compared to December 31, 2014, primarily attributable to wider credit spreads. At September 30, 2015, gross unrealized losses on fixed maturities consisted primarily of \$73.2 million of corporate fixed maturities, \$2.6 million in municipal securities and \$2.1 million of residential 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.

45

Table of Contents

The following table sets forth gross unrealized losses for fixed maturities by maturity period and for equity securities at September 30, 2015 and December 31, 2014. 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.

	September 30, 2015	December 31, 2014
(in millions)		
Due in one year or less	\$ 1.8	\$ 1.9
Due after one year through five years	21.8	7.0
Due after five years through ten years	45.9	20.6
Due after ten years	9.5	10.4
	79.0	39.9
Mortgage-backed and asset-backed securities	2.8	4.5
Total fixed maturities	81.8	44.4
Equity securities	22.6	2.6
Total fixed maturities and equity securities	\$ 104.4	\$ 47.0

The carrying values of fixed maturity securities on non-accrual status at September 30, 2015 and December 31, 2014 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 \$0.6 million and \$1.5 million for the nine months ended September 30, 2015 and 2014, 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. 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. In the United States, the Federal Reserve (the "Fed") is expected to continue to provide forward guidance to keep rates relatively stable even as the economy strengthens. The Fed has communicated that the timing of interest rate increases will depend on progress toward its goals of maximum employment and 2 percent inflation, which are expected over the medium term as the labor market improves. Geopolitical risks and equity market volatility can also impact the movement of U.S. Treasury interest rates.

While the United States has reduced its extraordinary measures, other major central banks continue with their stimulus policies as they seek higher growth and confront inflation and inflation expectations running below target. 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 debt 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.

Table of Contents

Other Items

Net income also included the following items:

(in millions)	Three Months Ended September 30,					Total
	Commercial Lines	Personal Lines	Chaucer	Other	Discontinued Operations	
2015						
Net realized investment gains (losses)	\$ 5.8	\$ 2.7	\$ (0.6)	\$ 0.1	\$ -	\$ 8.0
Net loss from repurchases of debt	-	-	-	(5.6)	-	(5.6)
Other non-operating items	-	-	0.2	-	-	0.2
Discontinued operations, net of taxes	-	-	-	-	1.1	1.1
2014						
Net realized investment gains	\$ 2.9	\$ 1.4	\$ 0.6	\$ -	\$ -	\$ 4.9
Other non-operating items	-	-	-	0.3	-	0.3

(in millions)	Nine Months Ended September 30,					Total
	Commercial Lines	Personal Lines	Chaucer	Other	Discontinued Operations	
2015						
Gain on disposal of U.K. motor business, net of tax	\$ -	\$ -	\$ 40.3	\$ -	\$ -	\$ 40.3
Net realized investment gains	20.0	9.0	0.6	0.4	-	30.0
Net loss from repurchases of debt	-	-	-	(24.1)	-	(24.1)
Other non-operating items	(0.2)	(0.1)	0.1	-	-	(0.2)
Discontinued operations, net of taxes	-	-	-	-	0.9	0.9
2014						
Net realized investment gains	\$ 6.8	\$ 3.3	\$ 21.4	\$ -	\$ -	\$ 31.5
Other non-operating items	-	-	-	(1.1)	-	(1.1)

Effective June 30, 2015, we transferred our U.K. motor business to an unaffiliated U.K.-based insurance provider which resulted in the recognition of a \$40.3 million gain, net of tax, during the second quarter. See also Part I – Note 3 “Disposal of U.K. Motor Business” in the Notes to Interim Consolidated Financial Statements.

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 \$8.0 million for the three months ended September 30, 2015 compared to \$4.9 million for the three months ended September 30, 2014. Net realized gains in 2015 were due to \$6.3 million of gains from other investments, primarily partnerships, and \$5.9 million of gains recognized from the sale of securities, principally equities, partially offset by \$4.2 million of OTTI losses. Net realized gains in 2014 were primarily due to \$4.6 million of gains recognized from the sale of equities and fixed maturities.

Net realized gains on investments were \$30.0 million for the nine months ended September 30, 2015 compared to \$31.5 million for the nine months ended September 30, 2014. Net realized gains in 2015 were due to \$32.3 million of gains recognized from the sale of securities, principally equities, and \$6.5 million of gains from other investments, primarily partnerships, partially offset by \$8.8 million of OTTI losses. Net realized gains in 2014 were primarily due to \$31.3 million of gains recognized from the sale of equity securities and to a lesser extent, fixed maturities.

Additionally, during the first nine months of 2015, we repurchased senior debentures with a net carrying value of \$90.2 million at a cost of \$114.3 million, resulting in a loss of \$24.1 million.

Table of Contents

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. A portion 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, 2015 Compared to Three Months Ended September 30, 2014

The provision for income taxes from continuing operations was an expense of \$33.2 million in the three months ended September 30, 2015, compared to an expense of \$20.3 million during the same period in 2014. These provisions resulted in consolidated effective federal tax rates of 30.1% and 27.0% for the three months ended September 30, 2015 and 2014, respectively. These provisions reflect benefits related to tax planning strategies implemented in prior years of \$3.4 million and \$3.2 million during the three months ended September 30, 2015 and 2014, respectively. Additionally, the three months ended September 30, 2014 included benefits related to the reduction of a valuation allowance of \$0.9 million. Absent these items, the provision for income taxes would have been \$36.6 million or 33.2% and \$24.4 million or 32.4% for the three months ended September 30, 2015 and 2014, respectively.

The income tax provision on operating income was an expense of \$35.6 million during the three months ended September 30, 2015, compared to \$22.4 million during the same period in 2014. These provisions resulted in effective tax rates for operating income of 33.0% and 32.0% in 2015 and 2014, respectively. The increase in the rate in 2015 is due primarily to a higher proportion of underwriting income taxed at 35%.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

The provision for income taxes from continuing operations was an expense of \$87.0 million in the nine months ended September 30, 2015, compared to an expense of \$62.9 million during the same period in 2014. These provisions resulted in consolidated effective federal tax rates of 25.6% and 24.7% for the nine months ended September 30, 2015 and 2014, respectively. These provisions reflect benefits related to tax planning strategies implemented in prior years of \$9.4 million and \$12.0 million during the nine months ended September 30, 2015 and 2014, respectively. Included in the nine months ended September 30, 2015 was a \$2.6 million benefit related to the gain on the disposal of the U.K. motor business whereas the nine months ended September 30, 2014 included a \$4.4 million benefit related to foreign exchange losses that was deducted on our 2013 U.S. tax return and a reduction of a valuation allowance of \$2.9 million. Absent these items and the effect of the disposal of the U.K. motor business, the provision for income taxes would have been \$99.0 million or 32.7% and \$82.2 million or 32.2% for the nine months ended September 30, 2015 and 2014, respectively.

The income tax provision on operating income was an expense of \$96.9 million during the nine months ended September 30, 2015, compared to \$71.6 million during the same period in 2014. These provisions resulted in effective tax rates for operating income of 32.7% and 31.9% in 2015 and 2014, respectively. The increase in the rate in 2015 is due primarily to a higher proportion of underwriting income taxed at 35%.

During the first nine months of 2014, we released the valuation allowance related to our deferred tax assets of \$2.9 million held at the beginning of the year. The write off of this valuation allowance resulted from appreciation in our investment portfolio. Accordingly, we recorded the decrease in our valuation allowance of \$2.9 million as an adjustment to income tax expense.

Table of Contents

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, 2014, 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
- 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, 2014.

Statutory Surplus of U.S. Insurance Subsidiaries

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

	September 30, 2015	December 31, 2014
(in millions)		
Total Statutory Capital and Surplus—U.S. Insurance Subsidiaries	\$ 2,129.4	\$ 2,057.1

The statutory capital and surplus for our U.S. insurance subsidiaries increased \$72.3 million during the first nine months of 2015, primarily due to operating results, partially offset by an increase in unrealized losses.

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, 2015, 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):

(dollars in millions)	Company Action Level	Authorized Control Level	RBC Ratio Industry Scale	RBC Ratio Regulatory Scale
The Hanover Insurance Company	\$ 746.7	\$ 373.3	283%	567%

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 investments, undrawn letters of credit provided by various banks, and cash and cash equivalents.

We have the following securities, letters of credit and cash and cash equivalents pledged to Lloyd's to satisfy these capital requirements at September 30, 2015. In October 2015, we entered into a new letter of credit facility which enables a higher level of these assets to be used to satisfy these capital requirements (see Liquidity and Capital Resources below). We are in compliance with the capital requirements at September 30, 2015 and expect to be able to meet these capital requirements in the future.

(in millions)

Fixed maturities, at fair value	\$ 479.2
Letters of credit	196.6
Cash and cash equivalents	4.5
Total pledged to Lloyd's	\$ 680.3

Table of Contents

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"). No dividends were paid to the holding company by Hanover Insurance during the first nine months of 2015.

Dividend payments to the holding company by Chaucer 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"), of certain proposed dividends or other payments from PRA regulated entities. Dividends of \$86.0 million were paid to the holding company by Chaucer during 2015.

In connection with an intercompany borrowing arrangement between Chaucer and 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. For each of the nine month periods ended September 30, 2015 and 2014, Chaucer paid \$16.8 million of interest to the holding company.

At September 30, 2015, THG, as a holding company, held \$142.9 million of fixed maturities and cash. We believe our holding company assets will be 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, 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 2015 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 \$354.4 million during the first nine months of 2015, as compared to \$408.1 million during the first nine months of 2014. The \$53.7 million change primarily resulted from the timing of reinsurance payments, partially offset by lower loss payments during the first nine months of 2015.

Net cash used in investing activities was \$111.8 million during the first nine months of 2015, as compared to \$347.2 million during the first nine months of 2014. During 2015, cash used in investing activities primarily related to net purchases of fixed maturities, equity securities and other investments. These cash outflows were partially offset by net cash received from the disposal of the U.K. motor business. In 2014, cash used was primarily related to net purchases of fixed maturities, equity securities and other investments.

Net cash used in financing activities was \$229.2 million during the first nine months of 2015, as compared to \$35.9 million during the first nine months of 2014. During 2015, cash used in financing activities primarily resulted from the

repurchase of debt, repurchases of common stock and payment of dividends to shareholders. These cash outflows were partially offset by cash inflows related to option exercises and the security lending program. During 2014, cash used in financing activities primarily resulted from the payment of dividends to shareholders and the repurchase of common stock. These cash outflows were partially offset by cash inflows related to the security lending program.

Dividends to common shareholders are subject to quarterly board approval and declaration. During the first nine months of 2015, as declared by the Board, we paid three quarterly dividends, each for \$0.41 per share to our shareholders, totaling \$54.3 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.

Table of Contents

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.

On October 28, 2015, the Company's Board of Directors authorized a \$300 million increase to its existing common stock repurchase program. As a result of this increase, the program provides for aggregate repurchases of up to \$900 million. Under the repurchase authorizations, the Company may repurchase, from time to time, common shares in amounts, at prices and at such times as the Company deems appropriate, subject to market conditions and other considerations. 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 2015, we repurchased approximately 1.1 million shares of our common stock at a cost of \$85.3 million. Through October 27, 2015, an additional 0.3 million shares were repurchased at a cost of approximately \$24.7 million. As of October 27, 2015, the Company had approximately \$306 million available for repurchases under these repurchase authorizations.

Additionally, from time to time, we may also repurchase our debt on an opportunistic basis. During the first nine months of 2015, we repurchased senior debentures with a net carrying value of \$90.2 million at a cost of \$114.3 million, resulting in a loss of \$24.1 million, which is included in other operating expenses.

We have a \$200.0 million credit agreement which expires in November 2018, with an option to increase the facility to \$300.0 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. The agreement contains financial covenants including, but not limited to, maintaining at least a certain level of consolidated equity, maximum consolidated leverage ratios and requires certain of our subsidiaries to maintain a minimum RBC ratio. We had no borrowings under this agreement during the first nine months of 2015.

Membership in FHLBB provides us with access to additional liquidity based on our stock holdings and pledged collateral. At September 30, 2015, we had additional borrowing capacity of \$44 million. There were no borrowings outstanding under this agreement at September 30, 2015; however, we have and may continue, from time to time, to borrow through this facility to provide short term liquidity.

On October 15, 2015, we entered into a Standby Letter of Credit Facility Agreement (the "Facility Agreement") not to exceed £170.0 million (or \$257.2 million) outstanding at any one time, with the option to increase the amount available for issuances of letters of credit to £235.0 million (or \$355.4 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 Facility Agreement replaces a Standby Letter of Credit Facility Agreement entered into on November 15, 2013 (the "Prior Facility Agreement"). This prior agreement provided for amounts available for issuances of letters of credit not to exceed £130.0 million (or \$196.6 million) outstanding at any one time, with a similar option to increase the amount available for issuances of letters of credit to £195.0 million (or \$294.9 million). The Facility Agreement, like the Prior Facility Agreement, provides certain covenants including, but not limited to, the syndicates' financial condition. The Facility Agreement provides regulatory capital supporting Chaucer's underwriting activities for the 2015, 2016 and 2017 years of account and each prior open year of account. The Prior Facility Agreement provided regulatory capital supporting Chaucer's underwriting activities for the 2014 and 2015 years of account and each prior open year of account. The Facility Agreement is generally renewed

biennially to support new underwriting years.

The Facility agreement is subject to a letter of credit commission fee on outstanding letters of credit, which is payable quarterly. The Facility Agreement fee ranges from 1.125% to 1.50% per annum, depending on our credit ratings for portions that are not cash collateralized, and 0.275% per annum for portions that are cash collateralized, whereas the Prior Facility Agreement fee ranged from 1.375% to 1.75% per annum, also dependent on our credit ratings for portions that were not cash collateralized, and 0.275% per annum for portions that were 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 0.394% to 0.525% per annum, depending on our credit ratings. Unutilized commitment fees for the Prior Facility Agreement were also payable quarterly, and ranged from 0.55% to 0.70% per annum, depending on our credit ratings. Chaucer is also required to pay customary agency fees. Under the previous agreement we had \$2.7 million and \$3.1 million in interest costs during the first nine months of 2015 and 2014, respectively.

51

Table of Contents

Simultaneous with the Facility Agreement, we entered into a Guaranty Agreement (the “Guaranty Agreement”) with Lloyds 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. The current Guaranty Agreement contains terms and conditions substantially similar to the previous guaranty agreement we had in place with Lloyds Bank plc in connection with the Prior Facility Agreement. The Guaranty Agreement replaced the prior guaranty agreement upon effectiveness of the Facility Agreement on October 15, 2015.

For a more detailed discussion of our credit agreements, see also “Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2014.

At September 30, 2015, we were in compliance with the covenants of our debt and credit 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 13 “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, 2014. This Management’s Discussion and Analysis should be read and interpreted in light of such factors.

Table of Contents

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, 2014, included in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes in the first nine months of 2015 to these risks or our management of them.

53

Table of Contents

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, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

54

Table of Contents

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 13 in the Notes to Interim Consolidated Financial Statements.

55

Table of Contents

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 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 2015 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;
- 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;
- potential disruptions associated with or during the transition to a new CEO and CFO;
- loss or retirement of key employees;
- 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;

Table of Contents

- an inability to be compliant with new regulations such as those relating to sanctions or 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, 2014.

Table of Contents

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

Issuer Purchases of Equity Securities

Shares purchased in the third quarter of 2015 are as follows:

Period	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, 2015 (2)	23,616	\$ 79.48	-	\$ 93
August 1 - 31, 2015	352,172	79.47	352,172	65
September 1 - 30, 2015 (3)	431,958	78.51	431,022	31
Total	807,746	\$ 78.96	783,194	\$ 31

(1) Since the announcement of our share repurchase program on October 29, 2007, and including the recent increase of \$300 million in shares on October 28, 2015, the Board has authorized us to repurchase up to \$900 million in shares of our common stock using open market purchases, privately negotiated transactions, accelerated repurchase programs or other transactions.

(2) 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 936 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.

58

Table of Contents

ITEM 6 – EXHIBITS

- EX – Description of compensatory arrangements with the Chief Executive Officer for transition services, previously
10.1 filed as Item 5.02 to the Registrant’s Current Report on Form 8-K filed with the Commission on September 16, 2015 and incorporated herein by reference.
- EX – Standby Letter of Credit Facility Agreement, dated October 15, 2015, among Chaucer Holdings Limited,
10.2 Chaucer Corporate Capital (No. 3) Limited and the lenders party thereto from time to time, Lloyd’s Bank plc and ING Bank N.V., London Branch as mandated lead arrangers and Lloyd’s Bank plc as bookrunner, overdraft provider, facility agent of the other Finance Parties (as defined therein) and security agent to the Secured Parties (as defined therein), previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the Commission on October 20, 2015 and incorporated herein by reference.
- EX – Guaranty Agreement, dated October 15, 2015, among the Registrant and Lloyd’s Bank plc, as Facility Agent and
10.3 Security Agent (each as defined therein), previously filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed with the Commission on October 20, 2015 and incorporated herein by reference.
- EX – Certification of the Chief Executive Officer, pursuant to 15 U.S.C. 78m, 78o(d), as adopted pursuant to section
31.1 302 of the Sarbanes-Oxley Act of 2002.
- EX – Certification of the Chief Financial Officer, pursuant to 15 U.S.C. 78m, 78o(d), as adopted pursuant to section
31.2 302 of the Sarbanes-Oxley Act of 2002.
- EX – Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section
32.1 906 of the Sarbanes-Oxley Act of 2002.
- EX – Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section
32.2 906 of the Sarbanes-Oxley Act of 2002.
- EX – The following materials from The Hanover Insurance Group, Inc.’s Quarterly Report on Form 10-Q for the
101 quarter ended September 30, 2015 formatted in eXtensible Business Reporting Language (“XBRL”): (i) Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014; (ii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Balance Sheets at September 30, 2015 and December 31, 2014; (iv) Consolidated Statements of Shareholders’ Equity for the nine months ended September 30, 2015 and 2014; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (vi) related notes to these financial statements.

Table of Contents

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.

The Hanover Insurance Group, Inc.
Registrant

October 30, 2015 /s/ Frederick H. Eppinger, Jr.

Date Frederick H. Eppinger, Jr.
President, Chief Executive Officer, Director
and Acting Chief Financial Officer (Principal Financial Officer)

October 30, 2015 /s/ Warren E. Barnes

Date Warren E. Barnes
Vice President, Corporate Controller

and Acting Principal Accounting Officer