GANGL KENNETH R
Form 4
April 08, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
GANGL KENNETH R
(Last) (First) (Middle)
777 106TH AVENUE NE
(Street)
BELLEVUE, WA 98004
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PACCAR INC [PCAR]

3. Date of Earliest Transaction (Month/Day/Year)
04/07/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP, FINANCIAL SERVICES

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
COMMON STOCK (SIP)	04/07/2005		J (1)		4.4	A	$ 76.85	1,694.2	D	
COMMON STOCK (ESPP) (2)								131.5	D	
COMMON STOCK								3,879	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

required to respond unless the form displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. D Se (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
STOCK OPTION (3)	$ 28.2							01/01/2005	01/23/2012	COMMON STOCK	11,105	
STOCK OPTION (3)	$ 31.4							01/01/2006	01/15/2013	COMMON STOCK	14,755	
STOCK OPTION (3)	$ 56.95							01/01/2007	01/15/2014	COMMON STOCK	8,661	
STOCK OPTION (3)	$ 72.25							01/01/2008	01/20/2015	COMMON STOCK	7,736	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GANGL KENNETH R 777 106TH AVENUE NE BELLEVUE, WA 98004			VP, FINANCIAL SERVICES	

Signatures

Kenneth R. Gangl	04/08/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) March 4, 2005 dividend on PACCAR Savings Investment Plan (SIP) shares reinvested pursuant to SIP. (SIP information based on most recent report from SIP Trustee - received April 7, 2005.)

(2) Shares held in the PACCAR Inc Employee Stock Purchase Plan (ESPP).

(3) Option to buy awarded under PACCAR Long Term Incentive Plan.

Remarks:

Fractional shares rounded to nearest 1/10.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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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

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

	Nine Months Ended September 30, 2015			2014		
(in millions)	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.

	Nine Months Ended September 30, 2015					2014				
(in millions)	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.

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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.

Explanation of Responses:

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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.

	Nine Months Ended September 30,	
(in millions)	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.

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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.

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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	
(dollars in millions)	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value
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:

	September 30, 2015			
(in millions)			Net	Change in Net
	Amortized		Unrealized	Unrealized
Investment Type	Cost	Fair Value	Gain	During 2015
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)

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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 Designation	Rating Agency Equivalent Designation	Amortized Cost	Fair Value	% of Total Fair Value	Amortized Cost	Fair Value	% of Total Fair Value
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.

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Unrealized Losses

The following table provides information about our fixed maturities and equity securities that were in an unrealized loss position 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	
(in millions)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
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.

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

(in millions)	September 30, 2015	December 31, 2014
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.

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Other Items

Net income also included the following items:

	Three Months Ended September 30,					
(in millions)	Commercial Lines	Personal Lines	Chaucer	Other	Discontinued Operations	Total
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

	Nine Months Ended September 30,					
(in millions)	Commercial Lines	Personal Lines	Chaucer	Other	Discontinued Operations	Total
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.

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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.

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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:

(in millions)	September 30, 2015	December 31, 2014
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

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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.

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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.

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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.

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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.

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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.

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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.

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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;

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- 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.

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

Issuer Purchases of Equity Securities

Shares purchased in the third quarter of 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.

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Explanation of Responses:

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ITEM 6 – EXHIBITS

EX – 10.1	Description of compensatory arrangements with the Chief Executive Officer for transition services, previously 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 – 10.2	Standby Letter of Credit Facility Agreement, dated October 15, 2015, among Chaucer Holdings Limited, 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 – 10.3	Guaranty Agreement, dated October 15, 2015, among the Registrant and Lloyd's Bank plc, as Facility Agent and 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 – 31.1	Certification of the Chief Executive Officer, pursuant to 15 U.S.C. 78m, 78o(d), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
EX – 31.2	Certification of the Chief Financial Officer, pursuant to 15 U.S.C. 78m, 78o(d), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
EX – 32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
EX – 32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
EX – 101	The following materials from The Hanover Insurance Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 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.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	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