

HANOVER INSURANCE GROUP, INC.

Form 10-Q

July 29, 2016

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 June 30, 2016

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 42,743,708 as of July 27, 2016.

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ITEM 1 - FINANCIAL STATEMENTSTHE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Revenues				
Premiums	\$ 1,145.5	\$ 1,205.8	\$ 2,296.8	\$ 2,416.8
Net investment income	69.1	70.7	137.4	140.8
Net realized investment gains (losses):				
Net realized gains from sales and other	4.3	14.5	26.7	26.6
Net other-than-temporary impairment losses on investments recognized in earnings	(5.0)	(1.9)	(25.9)	(4.6)
Total net realized investment (losses) gains	(0.7)	12.6	0.8	22.0
Fees and other income	8.1	8.0	14.6	16.2
Total revenues	1,222.0	1,297.1	2,449.6	2,595.8
Losses and expenses				
Losses and loss adjustment expenses	729.7	744.9	1,429.3	1,518.0
Amortization of deferred acquisition costs	254.4	262.0	513.5	522.6
Interest expense	15.6	15.0	30.3	31.1

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Gain on disposal of U.K. motor business	(0.4)	(37.7)	(1.2)	(37.7)
Net loss from repayment of debt	86.1	1.8	86.1	18.5
Other operating expenses	143.7	158.5	290.6	313.7
Total losses and expenses	1,229.1	1,144.5	2,348.6	2,366.2
Income (loss) before income taxes	(7.1)	152.6	101.0	229.6
Income tax expense (benefit):				
Current	6.5	5.7	39.9	34.9
Deferred	(15.5)	26.0	(18.9)	18.9
Total income tax (benefit) expense	(9.0)	31.7	21.0	53.8
Income from continuing operations	1.9	120.9	80.0	175.8
Net gain (loss) from discontinued operations (net of tax benefit of \$1.7 and \$0.1 for the three months ended June 30, 2016 and June 30, 2015 and \$2.2 and \$0.2 for the six months ended June 30, 2016 and June 30, 2015, respectively)	0.1	(0.2)	0.2	(0.2)
Net income	\$ 2.0	\$ 120.7	\$ 80.2	\$ 175.6
Earnings per common share:				
Basic:				
Income from continuing operations	\$ 0.04	\$ 2.74	\$ 1.86	\$ 3.98
Net gain (loss) from discontinued operations	0.01	(0.01)	0.01	-
Net income per share	\$ 0.05	\$ 2.73	\$ 1.87	\$ 3.98
Weighted average shares outstanding	43.0	44.2	43.0	44.2
Diluted:				
Income from continuing operations	\$ 0.04	\$ 2.69	\$ 1.84	\$ 3.90
Net gain (loss) from discontinued operations	0.01	(0.01)	-	-
Net income per share	\$ 0.05	\$ 2.68	\$ 1.84	\$ 3.90
Weighted average shares outstanding	43.4	45.0	43.5	45.1

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

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

(In millions)	Three Months		Six Months Ended	
	Ended June 30, 2016	2015	June 30, 2016	2015
Net income	\$ 2.0	\$ 120.7	\$ 80.2	\$ 175.6
Other comprehensive income (loss), net of tax:				
Available-for-sale securities:				
Net appreciation (depreciation) during the period	74.2	(92.6)	167.8	(63.5)
Change in other-than-temporary impairment losses recognized in other comprehensive income	2.8	(2.1)	5.7	(4.4)
Total available-for-sale securities	77.0	(94.7)	173.5	(67.9)
Pension and postretirement benefits:				
Net actuarial losses and prior service costs arising in the period	-	(3.3)	-	(1.4)
Amortization recognized as net periodic benefit and postretirement cost	1.7	3.4	3.3	5.1
Total pension and postretirement benefits	1.7	0.1	3.3	3.7
Cumulative foreign currency translation adjustment:				
Amount recognized as cumulative foreign currency translation during the period	(0.7)	7.7	(1.3)	(2.2)
Total other comprehensive income (loss), net of tax	78.0	(86.9)	175.5	(66.4)
Comprehensive income	\$ 80.0	\$ 33.8	\$ 255.7	\$ 109.2

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

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except share data)	June 30, 2016	December 31, 2015
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$6,842.8 and \$6,934.0)	\$ 7,142.0	\$ 6,983.4
Equity securities, at fair value (cost of \$507.8 and \$528.5)	582.7	576.6
Other investments	454.8	393.4
Total investments	8,179.5	7,953.4
Cash and cash equivalents	361.6	338.8
Accrued investment income	60.6	62.9
Premiums and accounts receivable, net	1,509.8	1,391.7
Reinsurance recoverable on paid and unpaid losses and unearned premiums	2,688.1	2,635.0
Deferred acquisition costs	522.5	508.8
Deferred income taxes	50.4	137.9
Goodwill	185.2	186.0
Other assets	525.7	483.7
Assets of discontinued operations	80.2	83.0
Total assets	\$ 14,163.6	\$ 13,781.2
Liabilities		
Loss and loss adjustment expense reserves	\$ 6,778.0	\$ 6,574.4
Unearned premiums	2,620.5	2,540.8
Expenses and taxes payable	594.0	724.9
Reinsurance premiums payable	274.7	205.2
Debt	797.8	803.1
Liabilities of discontinued operations	88.9	88.4
Total liabilities	11,153.9	10,936.8
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	1,835.2	1,833.5
Accumulated other comprehensive income	229.4	53.9
Retained earnings	1,841.5	1,803.5
Treasury stock at cost (17.8 and 17.5 million shares)	(897.0)	(847.1)
Total shareholders' equity	3,009.7	2,844.4
Total liabilities and shareholders' equity	\$ 14,163.6	\$ 13,781.2

