HANOVER INSURANCE GROUP, INC.
Form 10-Q
November 04, 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 September 30, 2016

or

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 incorporation or organization)	(I.R.S. Employer Identification No.)

440 Lincoln Street, Worcester, Massachusetts 01653

(Address of principal executive offices) (Zip Code)

(508) 855-1000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock was 42,543,286 as of November 2, 2016.

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 September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2016	2015	2016	2015
Revenues				
Premiums	$ 1,160.9	$ 1,150.1	$ 3,457.7	$ 3,566.9
Net investment income	67.8	68.3	205.2	209.1
Net realized investment gains (losses):				
Net realized gains from sales and other	4.3	12.2	31.0	38.8

Net other–than–temporary impairment losses on investments recognized in earnings	(0.1)	(4.2)	(26.0)	(8.8)
Total net realized investment gains	4.2	8.0	5.0	30.0
Fees and other income	8.3	7.1	22.9	23.3
Total revenues	1,241.2	1,233.5	3,690.8	3,829.3
Losses and expenses				
Losses and loss adjustment expenses	692.0	690.7	2,121.3	2,208.7
Amortization of deferred acquisition costs	257.9	259.0	771.4	781.6
Interest expense	12.5	14.8	42.8	45.9
Gain on disposal of U.K. motor business	(0.1)	-	(1.3)	(37.7)
Net loss from repayment of debt	-	5.6	86.1	24.1
Other operating expenses	154.8	153.0	445.4	466.7
Total losses and expenses	1,117.1	1,123.1	3,465.7	3,489.3
Income before income taxes	124.1	110.4	225.1	340.0
Income tax expense (benefit):				
Current	8.0	11.8	47.9	46.7
Deferred	27.8	21.4	8.9	40.3
Total income tax expense	35.8	33.2	56.8	87.0
Income from continuing operations	88.3	77.2	168.3	253.0
Net gain from discontinued operations (net of tax (expense) benefit of $(0.1) and $0.3 for the three months ended September 30, 2016 and September 30, 2015 and $2.1 and $0.5 for the nine months ended September 30, 2016 and September 30, 2015, respectively)	0.1	1.1	0.3	0.9
Net income	$ 88.4	$ 78.3	$ 168.6	$ 253.9
Earnings per common share:				
Basic:				
Income from continuing operations	$ 2.07	$ 1.75	$ 3.93	$ 5.73
Net gain from discontinued operations	-	0.03	0.01	0.02
Net income per share	$ 2.07	$ 1.78	$ 3.94	$ 5.75
Weighted average shares outstanding	42.7	44.0	42.8	44.1
Diluted:				
Income from continuing operations	$ 2.06	$ 1.72	$ 3.89	$ 5.62
Net gain from discontinued operations	-	0.02	-	0.02
Net income per share	$ 2.06	$ 1.74	$ 3.89	$ 5.64
Weighted average shares outstanding	43.0	44.9	43.3	45.0

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

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)	2016	2015	2016	2015
Net income	$ 88.4	$ 78.3	$ 168.6	$ 253.9
Other comprehensive (loss) income, net of tax:				
Available-for-sale securities:				
Net (depreciation) appreciation during the period	(3.6)	(31.2)	164.2	(94.7)
Change in other-than-temporary impairment losses recognized in other comprehensive income	1.6	(3.9)	7.3	(8.3)
Total available-for-sale securities	(2.0)	(35.1)	171.5	(103.0)
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	1.5	1.7	4.8	6.8
Total pension and postretirement benefits	1.5	1.7	4.8	5.4
Cumulative foreign currency translation adjustment:				
Amount recognized as cumulative foreign currency translation during the period	(1.9)	(2.6)	(3.2)	(4.8)
Total other comprehensive (loss) income, net of tax	(2.4)	(36.0)	173.1	(102.4)
Comprehensive income	$ 86.0	$ 42.3	$ 341.7	$ 151.5

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

Table of Contents

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except share data)	September 30, 2016	December 31, 2015
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of $7,100.4 and $6,934.0)	$ 7,400.2	$ 6,983.4
Equity securities, at fair value (cost of $533.6 and $528.5)	612.5	576.6
Other investments	483.4	393.4
Total investments	8,496.1	7,953.4
Cash and cash equivalents	315.9	338.8
Accrued investment income	62.5	62.9
Premiums and accounts receivable, net	1,534.9	1,391.7
Reinsurance recoverable on paid and unpaid losses and unearned premiums	2,655.1	2,635.0
Deferred acquisition costs	537.4	508.8
Deferred income taxes	16.2	137.9
Goodwill	185.1	186.0
Other assets	476.5	483.7
Assets of discontinued operations	84.0	83.0
Total assets	$ 14,363.7	$ 13,781.2
Liabilities		
Loss and loss adjustment expense reserves	$ 6,802.3	$ 6,574.4
Unearned premiums	2,684.8	2,540.8
Expenses and taxes payable	662.3	724.9
Reinsurance premiums payable	283.7	205.2
Debt	797.9	803.1
Liabilities of discontinued operations	87.0	88.4
Total liabilities	11,318.0	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	1,838.9	1,833.5
Accumulated other comprehensive income	227.0	53.9
Retained earnings	1,910.4	1,803.5
Treasury stock at cost (18.2 and 17.5 million shares)	(931.2)	(847.1)
Total shareholders’ equity	3,045.7	2,844.4
Total liabilities and shareholders’ equity	$ 14,363.7	$ 13,781.2

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)

	Nine Months Ended September 30,	
(In millions)	2016	2015
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	1,833.5	1,830.7
Employee and director stock-based awards and other	5.4	2.8
Balance at end of period	1,838.9	1,833.5
Accumulated Other Comprehensive Income (Loss), net of tax		
Net Unrealized Appreciation (Depreciation) on Investments:		
Balance at beginning of period	149.9	300.9
Net appreciation (depreciation) on available-for-sale securities	171.5	(103.0)
Balance at end of period	321.4	197.9
Defined Benefit Pension and Postretirement Plans:		
Balance at beginning of period	(78.6)	(84.3)
Net amount arising in the period	-	(1.4)
Net amount recognized as net periodic benefit cost	4.8	6.8
Balance at end of period	(73.8)	(78.9)
Cumulative Foreign Currency Translation Adjustment:		
Balance at beginning of period	(17.4)	(10.2)
Amount recognized as cumulative foreign currency translation during the period	(3.2)	(4.8)
Balance at end of period	(20.6)	(15.0)
Total accumulated other comprehensive income	227.0	104.0
Retained Earnings		
Balance at beginning of period	1,803.5	1,558.7
Net income	168.6	253.9
Dividends to shareholders	(59.2)	(54.3)
Stock-based compensation	(2.5)	(8.5)
Balance at end of period	1,910.4	1,749.8
Treasury Stock		
Balance at beginning of period	(847.1)	(752.4)
Shares purchased at cost	(105.2)	(85.3)
Net shares reissued at cost under employee stock-based compensation plans	21.1	27.3
Balance at end of period	(931.2)	(810.4)
Total shareholders' equity	$ 3,045.7	$ 2,877.5

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, 2016		2015	
Cash Flows From Operating Activities				
Net income	$	168.6	$	253.9
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposal of U.K. motor business		(1.3)		(37.7)
Net loss from repayment of debt		86.1		24.1
Net realized investment gains		(5.1)		(29.6)
Net amortization and depreciation		24.6		22.8
Stock-based compensation expense		8.5		9.4
Amortization of defined benefit plan costs		7.5		10.0
Deferred income tax expense		10.1		40.3
Change in deferred acquisition costs		(27.8)		(21.6)
Change in premiums receivable, net of reinsurance premiums payable		(84.7)		(114.6)
Change in loss, loss adjustment expense and unearned premium reserves		512.5		323.8
Change in reinsurance recoverable		(102.9)		(123.0)
Change in expenses and taxes payable		(31.2)		(5.1)

Other, net	(6.8)	1.7
Net cash provided by operating activities	558.1	354.4
Cash Flows From Investing Activities		
Proceeds from disposals and maturities of fixed maturities	1,190.3	1,272.9
Proceeds from disposals of equity securities and other investments	226.1	243.1
Purchase of fixed maturities	(1,443.1)	(1,376.3)
Purchase of equity securities and other investments	(292.2)	(285.8)
Cash received from disposal of U.K. motor business, net of cash transferred	-	44.3
Capital expenditures	(12.2)	(14.5)
Other investing activities	12.1	4.5
Net cash used in investing activities	(319.0)	(111.8)
Cash Flows From Financing Activities		
Proceeds from exercise of employee stock options	14.8	14.3
Proceeds from debt borrowings, net	370.5	-
Change in cash collateral related to securities lending program	(9.6)	14.1
Dividends paid to shareholders	(59.2)	(54.3)
Repayment of debt	(461.3)	(114.3)
Repurchases of common stock	(105.2)	(85.3)
Other financing activities	(9.8)	(3.7)
Net cash used in financing activities	(259.8)	(229.2)
Effect of exchange rate changes on cash	(2.2)	(1.6)
Net change in cash and cash equivalents	(22.9)	11.8

Cash and cash equivalents, beginning of period		338.8		373.3
Cash and cash equivalents, end of period	$	315.9	$	385.1

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

5

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 9 – "Segment Information". Additionally, the interim consolidated financial statements include the Company's discontinued operations, consisting primarily of the Company's former life insurance businesses 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, 2016 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 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 25, 2016.

2. New Accounting Pronouncements

Recently Implemented Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("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 implemented this guidance effective January 1, 2016. The effect of implementing this guidance was not material to the Company's financial position or results of operations.

Recently Issued Standards

In October 2016, the FASB issued ASC Update No. 2016-16, (Topic 740) Income Taxes – Intra-Entity Transfers of Assets Other Than Inventory. Under current GAAP, the tax effects of intra-entity transfers of assets (intercompany sales) are deferred until the assets are sold to an outside party or otherwise recovered through use. This ASC update eliminates this deferral of taxes for assets other than inventory and requires the recognition of taxes when the transfer occurs. The updated guidance is effective for interim and annual periods beginning after December 15, 2017, and should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings. Early adoption is permitted, but this election must be made in the first interim period of the adoption year. The Company is currently evaluating the impact of the adoption of ASC Update No. 2016-16.

In August 2016, the FASB issued ASC Update No. 2016-15, (Topic 230) Classification of Certain Cash Receipts and Cash Payments. This ASC update provides specific guidance on the presentation of certain cash flow items where there is currently diversity in practice, including, but not limited to, debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The updated guidance is effective for interim and annual periods beginning after December 15, 2017, and should be applied retrospectively unless impracticable. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASC Update No. 2016-15.

Table of Contents

In June 2016, the FASB issued ASC Update No. 2016-13, (Topic 326) Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASC update introduces new guidance for the accounting for credit losses on financial instruments within its scope. A new model, referred to as the current expected credit losses model, requires an entity to determine credit-related impairment losses for financial instruments held at amortized cost and to estimate these expected credit losses over the life of an exposure (or pool of exposures). The estimate of expected credit losses should consider both historical and current information, reasonable and supportable forecasts, as well as estimates of prepayments. The estimated credit losses and subsequent adjustment to such loss estimates, will be recorded through an allowance account which is deducted from the amortized cost of the financial instrument, with the offset recorded in current earnings. ASC Update No. 2016-13 also modifies the impairment model for available-for-sale debt securities. The new model will require an estimate of expected credit losses only when the fair value is below the amortized cost of the asset, thus the length of time the fair value of an available-for-sale debt security has been below the amortized cost will no longer affect the determination of whether a credit loss exists. In addition, credit losses on available-for-sale debt securities will be limited to the difference between the security’s amortized cost basis and its fair value. The updated guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for periods beginning after December 15, 2018. The Company is evaluating the impact of the adoption of ASC Update No. 2016-13 on its financial position and results of operations.

In March 2016, the FASB issued ASC Update No. 2016-09, (Topic 718) Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting. This ASC update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement, and be treated as discreet items in the reporting period in which they occur. Additionally, excess tax benefits will be classified with other income tax cash flows as an operating activity and cash paid by an employer when directly withholding shares for tax withholding purposes will be classified as a financing activity. Awards that are used to settle employee tax liabilities will be allowed to qualify for equity classification for withholdings up to the maximum statutory tax rates in applicable jurisdictions. Regarding forfeitures, a company can make an entity-wide accounting policy election to either continue estimating the number of awards that are expected to vest or account for forfeitures when they occur. The updated guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company does not expect that adoption of ASC Update No. 2016-09 will have a material effect on its financial position. The effect this guidance will have on the Company’s results of operations is dependent on the future tax benefits or deficiencies that are recognized related to stock-based compensations awards, and could be material in any one quarterly or annual period.

In February 2016, the FASB issued ASC Update No. 2016-02, (Topic 842) Leases. This ASC update requires a lessee to recognize a right-of-use asset, which represents the lessee’s right to use a specified asset for the lease term, and a corresponding lease liability, which represents a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, for all leases that extend beyond 12 months. For finance or capital leases, interest on the lease liability will be recognized separately from amortization of the right-of-use asset in the statements of income and comprehensive income. In addition, the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the statement of cash flows. For operating leases, the asset and liability will be amortized as a single lease cost, such that the cost of the lease is allocated over the lease term, on a generally straight-line basis, with all cash flows included within operating activities in the statement of cash flows. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and is required to be implemented by applying a modified retrospective transition approach. The Company is evaluating the impact of the adoption of ASC Update No. 2016-02 on its financial position and results of operations.

In January 2016, the FASB issued ASC Update No. 2016-01, (Subtopic 825-10) Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This ASC update requires unconsolidated equity investments to be measured at fair value with changes in the fair value recognized in net income, except for those accounted for under the equity method. This update eliminates the cost method for equity investments without readily determinable fair values and replaces with other methods, including the use of Net Asset Value. Additionally, when a public entity is required to measure fair value for disclosure purposes and holds financial instruments measured at amortized cost, the updated guidance requires these instruments to be measured using exit price. It also requires financial assets and financial liabilities to be presented separately in the notes to the financial statements, grouped by measurement category and form of financial asset. The updated guidance is effective for annual periods beginning after December 15, 2017. The Company is evaluating the impact of the adoption of ASC Update No. 2016-01 on its financial position and results of operations.

Table of Contents

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 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 update 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 No. 2015-09 to have a material impact on its financial position or results of operations, as the update is disclosure related.

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) Revenue from Contracts with Customers. This ASC update 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 No. 2014-15 to have a material impact on its financial position or results of operations.

3. Income Taxes

Income tax expense for the nine months ended September 30, 2016 and 2015 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, 2016, the tax provision is comprised of a $28.9 million U.S. federal income tax expense and a $27.9 million foreign income tax expense. For the nine months ended September 30, 2015, the tax provision was comprised of a $62.2 million U.S. federal income tax expense and a $24.8 million foreign income tax expense.

Although most of the Company’s non–U.S. income is subject to U.S. federal income tax, certain of its non–U.S. income is not subject to U.S. federal income tax until repatriated. Foreign taxes on this non–U.S. income are accrued at the local foreign tax rate, as opposed to the higher U.S. statutory rate, since these earnings currently are expected to be indefinitely reinvested overseas. This assumption could change as a result of a sale of the subsidiaries, the receipt of dividends from the subsidiaries, a change in management’s intentions, or as a result of various other events. The

Company has not made a provision for U.S. taxes on $18.7 million and $65.2 million of non-U.S. income for the nine months ended September 30, 2016 and 2015, respectively. However, in the future, if such earnings were distributed to the Company, taxes of $51.9 million would be payable on the accumulated 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 2012, U.S. state income tax examinations for years after 2012 and foreign examinations for years after 2012.

Table of Contents

4. Debt

Debt consists of the following:

(in millions)	September 30, 2016	December 31, 2015
Senior debentures maturing April 15, 2026	$ 375.0	$ -
Senior debentures maturing June 15, 2021	-	300.0
Senior debentures maturing March 1, 2020	-	80.0
Senior debentures maturing October 15, 2025	74.6	74.6
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	$ 809.3	$ 814.3
Unamortized debt issuance costs	(11.4)	(11.2)
Total	$ 797.9	$ 803.1

On April 8, 2016, the Company issued $375.0 million aggregate principal amount of 4.50% senior unsecured debentures due April 15, 2026. The senior debentures are subject to certain restrictive covenants, including limitations on the issuance or disposition of stock of restricted subsidiaries and limitations on liens. These debentures pay interest semi-annually.

Net proceeds from the issuance of the aforementioned debentures were $370.5 million. On May 21, 2016, the proceeds, together with cash on hand, were used to redeem the outstanding 7.50% notes due March 1, 2020 and 6.375% notes due June 15, 2021. The redemption of these notes resulted in a pre-tax loss of $86.1 million.

At September 30, 2016, the Company was in compliance with the covenants associated with its debt indentures and credit arrangements.

5. Investments

A. Fixed maturities and equity securities

The amortized cost and fair value of available-for-sale fixed maturities and the cost and fair value of equity securities were as follows:

	September 30, 2016				
(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Unrealized Losses
Fixed maturities:					
U.S. Treasury and government agencies	$ 311.1	$ 9.4	$ 0.1	$ 320.4	$ -
Foreign government	234.5	8.2	-	242.7	-
Municipal	1,071.8	65.7	1.1	1,136.4	-
Corporate	3,937.4	190.5	19.7	4,108.2	15.8
Residential mortgage-backed	921.8	23.5	1.0	944.3	0.3

Commercial mortgage-backed	546.5	23.7	0.4	569.8	-
Asset-backed	77.3	1.4	0.3	78.4	-
Total fixed maturities	$ 7,100.4	$ 322.4	$ 22.6	$ 7,400.2	$ 16.1
Equity securities	$ 533.6	$ 79.8	$ 0.9	$ 612.5	$ -

	December 31, 2015				
(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Unrealized Losses
Fixed maturities:					
U.S. Treasury and government agencies	$ 447.1	$ 5.5	$ 3.5	$ 449.1	$ -
Foreign government	244.7	2.6	1.5	245.8	-
Municipal	1,074.5	50.0	4.2	1,120.3	-
Corporate	3,699.9	86.8	95.7	3,691.0	27.5
Residential mortgage-backed	887.6	13.4	4.9	896.1	0.3
Commercial mortgage-backed	499.6	5.8	4.3	501.1	-
Asset-backed	80.6	0.2	0.8	80.0	-
Total fixed maturities	$ 6,934.0	$ 164.3	$ 114.9	$ 6,983.4	$ 27.8
Equity securities	$ 528.5	$ 55.7	$ 7.6	$ 576.6	$ -

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 $21.1 million and $1.1 million as of September 30, 2016 and December 31, 2015, 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.

	September 30, 2016	
(in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 375.0	$ 378.2
Due after one year through five years	2,575.9	2,692.0
Due after five years through ten years	2,120.6	2,220.4
Due after ten years	483.3	517.1
	5,554.8	5,807.7
Mortgage-backed and asset-backed securities	1,545.6	1,592.5

Total fixed maturities	$ 7,100.4	$ 7,400.2

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, 2016 and December 31, 2015 including the length of time the securities have been in an unrealized loss position:

	September 30, 2016					
	12 months or less		Greater than 12 months		Total	
(in millions)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Fixed maturities:						
Investment grade:						
U.S. Treasury and government agencies	$ 0.1	$ 37.8	$ -	$ -	$ 0.1	$ 37.8
Foreign governments	-	11.5	-	1.5	-	13.0
Municipal	0.2	43.7	0.9	31.7	1.1	75.4
Corporate	1.3	209.7	4.3	55.5	5.6	265.2
Residential mortgage-backed	0.2	122.3	0.8	40.1	1.0	162.4
Commercial mortgage-backed	0.4	56.8	-	7.1	0.4	63.9
Asset-backed	0.1	3.7	0.2	6.2	0.3	9.9
Total investment grade	2.3	485.5	6.2	142.1	8.5	627.6
Below investment grade:						
Corporate	0.9	30.1	13.2	105.2	14.1	135.3
Total fixed maturities	3.2	515.6	19.4	247.3	22.6	762.9
Equity securities	0.9	18.7	-	-	0.9	18.7
Total	$ 4.1	$ 534.3	$ 19.4	$ 247.3	$ 23.5	$ 781.6

Table of Contents

	December 31, 2015					
	12 months or less		Greater than 12 months		Total	
(in millions)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Fixed maturities:						
Investment grade:						
U.S. Treasury and government agencies	$ 1.5	$ 139.0	$ 2.0	$ 77.2	$ 3.5	$ 216.2
Foreign governments	0.8	63.6	0.7	8.4	1.5	72.0
Municipal	2.3	143.0	1.9	57.4	4.2	200.4
Corporate	30.7	1,138.3	18.9	122.3	49.6	1,260.6
Residential mortgage-backed	3.0	334.5	1.9	47.0	4.9	381.5
Commercial mortgage-backed	4.2	293.8	0.1	9.7	4.3	303.5
Asset-backed	0.8	56.6	-	1.4	0.8	58.0
Total investment grade	43.3	2,168.8	25.5	323.4	68.8	2,492.2
Below investment grade:						
Corporate	19.6	165.5	26.5	63.2	46.1	228.7
Total fixed maturities	62.9	2,334.3	52.0	386.6	114.9	2,720.9
Equity securities	7.6	166.8	-	-	7.6	166.8
Total	$ 70.5	$ 2,501.1	$ 52.0	$ 386.6	$ 122.5	$ 2,887.7

The Company views gross unrealized losses on fixed maturities and equity securities as being temporary since it is its assessment that these securities will recover in the near term, allowing the Company to realize the anticipated long-term economic value. The Company employs a systematic methodology to evaluate declines in fair value below amortized cost for fixed maturity securities or cost for equity securities. In determining OTTI of fixed maturity and equity securities, the Company evaluates several factors and circumstances, including the issuer's overall financial condition; the issuer's credit and financial strength ratings; the issuer's financial performance, including earnings trends, dividend payments and asset quality; any specific events which may influence the operations of the issuer; the general outlook for market conditions in the industry or geographic region in which the issuer operates; and the length of time and the degree to which the fair value of an issuer's securities remains below the Company's cost. With respect to fixed maturity investments, the Company considers any factors that might raise doubt about the issuer's ability to make contractual payments as they come due and whether the Company expects to recover the entire amortized cost basis of the security. With respect to equity securities, the Company considers its ability and intent to hold the investment for a period of time to allow for a recovery in value.

C. Other investments

In accordance with Lloyd's operating guidelines, the Company deposits funds at Lloyd's to support underwriting operations. These funds are available only to fund claim obligations. These assets consisted of approximately $507 million of fixed maturities and $4 million of cash and cash equivalents as of September 30, 2016. The Company also deposits funds with various state and governmental authorities in the U.S. For a discussion of the Company's deposits with state and governmental authorities, see also Note 3 – "Investments" of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015.

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,					
	2016			2015		
(in millions)	Proceeds from Sales	Gross Gains	Gross Losses	Proceeds from Sales	Gross Gains	Gross Losses
Fixed maturities	$ 94.2	$ 3.6	$ 0.3	$ 145.2	$ 0.7	$ 0.6
Equity securities	$ 20.7	$ -	$ 1.2	$ 17.4	$ 4.1	$ 0.1

	Nine Months Ended September 30,					
	2016			2015		
(in millions)	Proceeds from Sales	Gross Gains	Gross Losses	Proceeds from Sales	Gross Gains	Gross Losses
Fixed maturities	$ 402.1	$ 9.5	$ 4.5	$ 969.9	$ 13.6	$ 5.3
Equity securities	$ 194.1	$ 26.4	$ 2.9	$ 185.2	$ 24.2	$ 0.1

Proceeds from sales of fixed maturities for the nine months ended September 30, 2015 included $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, 2016, $0.1 million of OTTI on fixed maturities was transferred from unrealized losses in accumulative other comprehensive income (“AOCI”) and recognized in earnings, with no impact on total OTTI. For the nine months ended September 30, 2016, total OTTI was $19.2 million, consisting primarily of fixed maturities and, to a lesser extent, equity securities. Of this amount, $26.0 million was recognized in earnings, including $6.8 million which was transferred from unrealized losses in AOCI.

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 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.

The methodology and significant inputs used to measure the amount of credit losses on fixed maturities in 2016 and 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, loss-given-default factors based on security type and position in the capital structure and asset duration. These factors are based on historical data provided by an independent third-party rating agency.

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Credit losses at beginning of period	$ 11.7	$ 6.1	$ 18.0	$ 4.2
Credit losses for which an OTTI was not previously recognized	-	2.5	5.2	5.2
Additional credit losses on securities for which an OTTI was previously recognized	0.1	1.0	2.2	1.0
Reductions for securities sold, matured or called	(2.3)	-	(3.9)	(0.8)
Reductions for securities reclassified as intended to sell	-	-	(12.0)	-
Credit losses at end of period	$ 9.5	$ 9.6	$ 9.5	$ 9.6

6. Fair Value

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

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

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

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

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

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

Cash and Cash Equivalents

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

Table of Contents

Fixed Maturities

Level 1 securities generally include U.S. Treasury issues and other securities that are highly liquid and for which quoted market prices are available. Level 2 securities are valued using pricing for similar securities and pricing models that incorporate observable inputs including, but not limited to yield curves and issuer spreads. Level 3 securities include issues for which little observable data can be obtained, primarily due to the illiquid nature of the securities, and for which significant inputs used to determine fair value are based on the Company’s own assumptions. Non-binding broker quotes are also included in Level 3.

The Company utilizes a third party pricing service for the valuation of the majority of its fixed maturity securities and receives one quote per security. When quoted market prices in an active market are available, they are provided by the pricing service as the fair value and such values are classified as Level 1. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value for those securities using pricing applications based on a market approach. Inputs into the fair value pricing common to all asset classes include: benchmark U.S. Treasury security yield curves; reported trades of identical or similar fixed maturity securities; broker/dealer quotes of identical or similar fixed maturity securities and structural characteristics such as maturity date, coupon, mandatory principal payment dates, frequency of interest and principal payments, and optional redemption features. Inputs into the fair value applications that are unique by asset class include, but are not limited to:

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

Table of Contents

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.

Other Investments

Other investments primarily include mortgage participations, 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 excluded from the fair value hierarchy.

Debt

The fair value of debt is estimated based on quoted market prices for identical or similar issuances. 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:

	September 30, 2016		December 31, 2015	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	$ 315.9	$ 315.9	$ 338.8	$ 338.8
Fixed maturities	7,400.2	7,400.2	6,983.4	6,983.4
Equity securities	612.5	612.5	576.6	576.6
Other investments	448.3	463.5	365.4	367.9
Total financial assets	$ 8,776.9	$ 8,792.1	$ 8,264.2	$ 8,266.7
Financial Liabilities				
Debt	$ 797.9	$ 895.9	$ 803.1	$ 927.8

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 a process for which 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 2016 and 2015, the Company did not adjust any prices received from 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.

	September 30, 2016			
(in millions)	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	$ 320.4	$ 174.2	$ 146.2	$ -
Foreign government	242.7	48.3	194.4	-
Municipal	1,136.4	-	1,104.1	32.3
Corporate	4,108.2	-	4,103.9	4.3
Residential mortgage-backed, U.S. agency backed	889.8	-	889.8	-
Residential mortgage-backed, non-agency	54.5	-	54.5	-
Commercial mortgage-backed	569.8	-	553.6	16.2
Asset-backed	78.4	-	78.4	-
Total fixed maturities	7,400.2	222.5	7,124.9	52.8
Equity securities	603.8	602.4	-	1.4
Other investments	99.5	-	95.9	3.6
Total investment assets at fair value	$ 8,103.5	$ 824.9	$ 7,220.8	$ 57.8

	December 31, 2015			
(in millions)	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	$ 449.1	$ 193.6	$ 255.5	$ -
Foreign government	245.8	52.5	193.3	-
Municipal	1,120.3	-	1,085.9	34.4
Corporate	3,691.0	-	3,687.3	3.7
Residential mortgage-backed, U.S. agency backed	824.5	-	824.5	-
Residential mortgage-backed, non-agency	71.6	-	71.6	-
Commercial mortgage-backed	501.1	-	484.1	17.0
Asset-backed	80.0	-	79.5	0.5
Total fixed maturities	6,983.4	246.1	6,681.7	55.6
Equity securities	567.7	566.4	-	1.3
Other investments	104.5	-	100.9	3.6
Total investment assets at fair value	$ 7,655.6	$ 812.5	$ 6,782.6	$ 60.5

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

	September 30, 2016			
(in millions)	Total	Level 1	Level 2	Level 3

Assets:				
Cash and cash equivalents	$ 315.9	$ 315.9	$ -	$ -
Equity securities	8.7	-	8.7	-
Other investments	290.7	-	-	290.7
Liabilities:				
Debt	$ 895.9	$ -	$ 895.9	$ -

	December 31, 2015			
(in millions)	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 338.8	$ 338.8	$ -	$ -
Equity securities	8.9	-	8.9	-
Other investments	203.5	-	-	203.5
Liabilities:				
Debt	$ 927.8	$ -	$ 927.8	$ -

Investments measured at fair value using net asset value based on an ownership interest in partners' capital have not been included in the table above. The fair values of these investments were $73.3 million and $59.9 million as of September 30, 2016 and December 31, 2015, respectively, which are less than 1% of total investment assets.

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

	Fixed Maturities						
(in millions)	Municipal	Corporate	Commercial mortgage-backed	Asset-backed	Total	Equity and Other	Total Assets
Three Months Ended September 30, 2016							
Balance July 1, 2016	$ 34.4	$ 4.4	$ 16.7	$ 0.4	$ 55.9	$ 4.9	$ 60.8
Transfers out of Level 3	(1.2)	-	-	-	(1.2)	-	(1.2)
Total (losses) gains:							
Included in other comprehensive income - net (depreciation) appreciation							
on available-for-sale securities	(0.1)	(0.1)	(0.1)	-	(0.3)	0.1	(0.2)
Sales	(0.8)	-	(0.4)	(0.4)	(1.6)	-	(1.6)
Balance September 30, 2016	$ 32.3	$ 4.3	$ 16.2	$ -	$ 52.8	$ 5.0	$ 57.8
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):							
	-	-	0.1	-	0.1	-	0.1

Included in total net realized investment gains							
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

13

Table of Contents

(in millions)	Fixed Maturities Municipal	Corporate	Commercial mortgage-backed	Asset-backed	Total	Equity and Other	Total Assets
Nine Months Ended September 30, 2016							
Balance January 1, 2016	$ 34.4	$ 3.7	$ 17.0	$ 0.5	$ 55.6	$ 4.9	$ 60.5
Transfers out of Level 3	(1.2)	-	-	-	(1.2)	-	(1.2)
Total gains (losses):							
Included in total net realized investment gains	0.1	(0.2)	-	-	(0.1)	-	(0.1)
Included in other comprehensive income-net appreciation on available-for-sale securities	1.5	0.6	0.6	-	2.7	0.1	2.8
Purchases and sales:							
Purchases	-	0.3	-	-	0.3	-	0.3
Sales	(2.5)	(0.1)	(1.4)	(0.5)	(4.5)	-	(4.5)
Balance September 30, 2016	$ 32.3	$ 4.3	$ 16.2	$ -	$ 52.8	$ 5.0	$ 57.8
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 total net realized investment gains	-	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

During the three and nine months ended September 30, 2016 and 2015, the Company transferred assets 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, 2016 or 2015. There were no Level 3 liabilities held by the Company for the nine months ended September 30, 2016 and 2015.

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 of $0.5 million have been excluded.

			September 30, 2016		December 31, 2015	
(in millions)	Valuation Technique	Significant Unobservable Inputs	Fair Value	Range (Wtd Average)	Fair Value	Range (Wtd Average)
Fixed maturities:						
Municipal	Discounted cash flow	Discount for:	$ 32.3		$ 34.4	
		Small issue size		0.7 -6.8% (3.3%)		0.6 - 6.8% (3.2%)
		Credit stress		0.9 - 1.5% (1.2%)		0.9 - 1.5% (1.2%)
		Above-market coupon		0.3 - 1.0% (0.4%)		0.3 - 1.0% (0.4%)
Corporate	Discounted cash flow	Discount for:	4.1		3.7	
		Small issue size		2.0 - 2.5% (2.1%)		1.0% (1.0%)
		Credit stress		1.0% (1.0%)		10.0% (10.0%)
		Above-market coupon		0.3 - 0.8% (0.6%)		0.3 - 0.8% (0.6%)
Commercial mortgage-backed	Discounted	Discount for:	16.2		17.0	