

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

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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.	<u>Financial Statements</u>	
	<u>Consolidated Statements of Income</u>	2
	<u>Consolidated Statements of Comprehensive Income</u>	3
	<u>Consolidated Balance Sheets</u>	4
	<u>Consolidated Statements of Shareholders' Equity</u>	5
	<u>Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Interim Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	52
Item 4.	<u>Controls and Procedures</u>	53
PART II.	<u>OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	54
Item 1A.	<u>Risk Factors</u>	55
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 6.	<u>Exhibits</u>	58
	<u>SIGNATURES</u>	59

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

(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 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

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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)

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	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 ContentsTHE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2016	December 31, 2015
(In millions, except share data)		
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.

3

Table of Contents

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

(In millions)	Nine Months Ended	
	September 30, 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.

4

Table of ContentsTHE 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)

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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.

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.

7

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:

(in millions)	September 30, 2016			Fair Value	OTTI Unrealized Losses
	Amortized Cost or Cost	Gross Unrealized Gains	Gross 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

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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)	Amount	Gross		OTTI	
	Cost	Unrealized	Unrealized	Unrealized	Unrealized
	Cost	Gains	Losses	Fair Value	Losses
Fixed maturities:					