HANOVER INSURANCE GROUP, INC.
Form 10-Q
November 01, 2018

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, 2018

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 42,332,507 as of October 30, 2018.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share data)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues				
Premiums	$1,071.7	$1,004.4	$3,172.4	$2,957.0
Net investment income	66.4	62.6	198.0	181.3
Net realized and unrealized investment gains (losses):				
Net realized gains (losses) from sales and other	(0.2)	14.6	(0.1)	25.0
Net change in fair value of equity securities	23.6	—	6.7	—
Net other–than–temporary impairment losses on investments recognized in earnings	(0.4)	(1.3)	(2.8)	(4.5)
Total net realized and unrealized investment gains	23.0	13.3	3.8	20.5
Fees and other income	5.5	5.6	17.3	16.6
Total revenues	1,166.6	1,085.9	3,391.5	3,175.4
Losses and expenses				
Losses and loss adjustment expenses	676.4	656.5	2,018.5	1,938.2
Amortization of deferred acquisition costs	224.4	211.4	664.7	625.6
Interest expense	11.2	11.3	33.9	33.9
Other operating expenses	131.9	124.0	393.0	380.1
Total losses and expenses	1,043.9	1,003.2	3,110.1	2,977.8
Income from continuing operations before income taxes	122.7	82.7	281.4	197.6
Income tax expense:				
Current	16.2	16.8	27.1	8.6
Deferred	2.5	6.4	17.4	44.8
Total income tax expense	18.7	23.2	44.5	53.4
Income from continuing operations	$104.0	$59.5	$236.9	$144.2
Income (loss) from discontinued Chaucer business (net of income tax benefit (expense) of $1.1 and $26.6 for the three months ended September 30, 2018 and 2017, respectively, and ($6.6) and $10.4 for the nine months	(3.6)	(47.2)	30.5	(8.3)

ended September 30, 2018 and 2017, respectively)				
Net loss from discontinued life business (net of tax benefit of $0.8 for the three and nine months ended September 30, 2017)	—	(1.2)	—	(1.2)
Net income	$100.4	$11.1	$267.4	$134.7
Earnings per common share:				
Basic:				
Income from continuing operations	$2.45	$1.40	$5.57	$3.39
Income (loss) from discontinued Chaucer business	(0.09)	(1.11)	0.72	(0.19)
Net loss from discontinued life business	—	(0.03)	—	(0.03)
Net income per share	$2.36	$0.26	$6.29	$3.17
Weighted average shares outstanding	42.5	42.4	42.5	42.5
Diluted:				
Income from continuing operations	$2.41	$1.38	$5.50	$3.36
Income (loss) from discontinued Chaucer business	(0.08)	(1.10)	0.71	(0.19)
Net loss from discontinued life business	—	(0.02)	—	(0.03)
Net income per share	$2.33	$0.26	$6.21	$3.14
Weighted average shares outstanding	43.1	42.9	43.1	42.9

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Net income	$100.4	$11.1	$267.4	$134.7
Other comprehensive (loss) income, net of tax:				
Available-for-sale securities:				
Net (depreciation) appreciation during the period	(25.0)	1.7	(197.9)	40.0
Change in other-than-temporary impairment losses recognized in other comprehensive (loss) income	(0.2)	2.0	0.1	2.5
Total available-for-sale securities	(25.2)	3.7	(197.8)	42.5
Pension and postretirement benefits:				
Net change in net actuarial loss and prior service cost	1.9	2.3	0.5	7.0
Cumulative foreign currency translation adjustment:				
Amount recognized as cumulative foreign currency translation during the period	1.6	1.1	0.6	1.7
Total other comprehensive (loss) income, net of tax	(21.7)	7.1	(196.7)	51.2
Comprehensive income	$78.7	$18.2	$70.7	$185.9

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 BALANCE SHEETS (UNAUDITED)

(In millions, except share data)	September 30, 2018	December 31, 2017
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of $6,204.3 and $5,657.1)	$6,092.6	$5,749.3
Equity securities, at fair value	574.8	576.2
Other investments	633.2	562.7
Total investments	7,300.6	6,888.2
Cash and cash equivalents	117.9	297.9
Accrued investment income	53.0	48.2
Premiums and accounts receivable, net	1,217.8	1,095.7
Reinsurance recoverable on paid and unpaid losses and unearned premiums	1,586.0	1,625.5
Deferred acquisition costs	456.9	430.0
Deferred income taxes	33.5	17.0
Goodwill	178.8	178.8
Other assets	330.0	333.7
Assets held-for-sale	4,247.2	4,466.6
Assets of discontinued life business	102.6	88.0
Total assets	$15,624.3	$15,469.6
Liabilities		
Loss and loss adjustment expense reserves	$5,188.9	$5,058.5
Unearned premiums	2,314.4	2,131.7
Expenses and taxes payable	538.6	620.7
Reinsurance premiums payable	46.4	51.5
Debt	777.6	786.9
Liabilities held-for-sale	3,660.4	3,707.2
Liabilities of discontinued life business	115.6	115.4
Total liabilities	$12,641.9	12,471.9
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	1,868.9	1,857.0
Accumulated other comprehensive income (loss)	(190.8)	107.6
Retained earnings	2,277.6	1,975.0
Treasury stock at cost (18.2 million and 18.0 million shares)	(973.9)	(942.5)
Total shareholders' equity	2,982.4	2,997.7
Total liabilities and shareholders' equity	$15,624.3	$15,469.6

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 SHAREHOLDERS' EQUITY (UNAUDITED)

(In millions)	Nine Months Ended September 30, 2018	2017
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	1,857.0	1,846.7
Employee and director stock-based awards and other	11.9	9.7
Balance at end of period	1,868.9	1,856.4
Accumulated Other Comprehensive Income (Loss), net of tax		
Net Unrealized Appreciation (Depreciation) on Investments:		
Balance at beginning of period	205.4	186.0
Net appreciation (depreciation) on available-for-sale securities	(197.8)	42.5
Adoption of Accounting Standards Update 2016-01 and 2018-02	(81.6)	—
Balance at end of period	(74.0)	228.5
Defined Benefit Pension and Postretirement Plans:		
Balance at beginning of period	(79.5)	(102.5)
Net change in net actuarial loss and prior service cost	0.5	7.0
Adoption of Accounting Standards Update 2018-02	(16.2)	—
Balance at end of period	(95.2)	(95.5)
Cumulative Foreign Currency Translation Adjustment:		
Balance at beginning of period	(18.3)	(20.7)
Amount recognized as cumulative foreign currency translation during the period	0.6	1.7
Adoption of Accounting Standards Update 2018-02	(3.9)	—
Balance at end of period	(21.6)	(19.0)
Total accumulated other comprehensive income (loss)	(190.8)	114.0
Retained Earnings		
Balance at beginning of period	1,975.0	1,875.6
Cumulative effect of accounting change, net of taxes	104.3	—
Balance at beginning of period, as adjusted	2,079.3	1,875.6
Net income	267.4	134.7
Dividends to shareholders	(69.1)	(63.8)
Balance at end of period	2,277.6	1,946.5
Treasury Stock		
Balance at beginning of period	(942.5)	(928.2)
Shares purchased at cost	(44.2)	(37.2)
Net shares reissued at cost under employee stock-based compensation plans	12.8	19.9
Balance at end of period	(973.9)	(945.5)
Total shareholders' equity	$2,982.4	$2,972.0

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 CASH FLOWS (UNAUDITED)

(In millions)	Nine Months Ended September 30, 2018		2017	
Cash Flows From Operating Activities				
Net income	$ 267.4		$ 134.7	
Adjustments to reconcile net income to net cash provided by operating activities:				
Net realized and unrealized investment gains	(3.8	)	(21.2	)
Net amortization and depreciation	21.0		23.0	
Stock-based compensation expense	12.1		11.5	
Amortization of defined benefit plan costs	7.3		10.5	
Deferred income tax (benefit) expense	5.8		(3.1	)
Net loss from repayment of debt	1.9		—	
Change in deferred acquisition costs	(28.0	)	(45.0	)
Change in premiums receivable, net of reinsurance premiums payable	(134.2	)	(96.5	)
Change in loss, loss adjustment expense and unearned premium reserves	473.7		917.5	
Change in reinsurance recoverable	(88.6	)	(337.4	)
Change in expenses and taxes payable	(49.7	)	(53.9	)
Other, net	(18.5	)	(7.9	)

Net cash provided by operating activities	466.4		532.2	
Cash Flows From Investing Activities				
Proceeds from disposals and maturities of fixed maturities	871.0		819.7	
Proceeds from disposals of equity securities and other investments	77.3		138.2	
Purchase of fixed maturities	(1,273.6	)	(1,296.9	)
Purchase of equity securities and other investments	(127.8	)	(139.8	)
Capital expenditures	(12.4	)	(10.7	)
Other investing activities	—		(9.7	)
Net cash used in investing activities	(465.5	)	(499.2	)
Cash Flows From Financing Activities				
Proceeds from exercise of employee stock options	12.7		19.2	
Change in cash collateral related to securities lending program	(8.3	)	(7.3	)
Dividends paid to shareholders	(68.9	)	(63.8	)
Repurchases of common stock	(44.2	)	(37.2	)
Repayment of debt	(11.6	)	-	
Other financing activities	(3.2	)	(3.0	)
Net cash used in financing activities	(123.5	)	(92.1	)
Effect of exchange rate changes on cash	(2.5	)	3.7	
Net change in cash and cash equivalents	(125.1	)	(55.4	)
Net change in cash related to discontinued operations	(54.9	)	27.7	
Cash and cash equivalents, beginning of period	297.9		147.3	

Cash and cash equivalents, end of period	$	117.9	$	119.6

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

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, and certain other insurance and non-insurance subsidiaries. These legal entities conduct their operations through several business segments discussed in Note 9 – "Segment Information". On September 13, 2018, the Company entered into a definitive agreement to sell Chaucer Holdings Limited ("Chaucer"), a specialist insurance underwriting group which operates through the Society and Corporation of Lloyd's and the international insurance and non-insurance subsidiaries, which collectively constitute our Chaucer segment, to China Reinsurance (Group) Corporation ("China Re"). Accordingly, as of September 30, 2018 and for all prior periods, Chaucer's results have been presented as discontinued operations and its assets and liabilities have been classified as held-for-sale in the consolidated financial statements (see Note 3 – "Discontinued Operations"). The interim consolidated financial statements also include discontinued operations of the Company's accident and health and former life insurance businesses. 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, 2018 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 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 27, 2018.

2. New Accounting Pronouncements

Recently Implemented Standards

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASC Update No. 2018-02 (Topic 220) Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASC update allows for a reclassification into retained earnings of the stranded tax effects in accumulated other comprehensive income ("AOCI") resulting from the enactment of the Tax Cuts and Jobs Act ("TCJA"). Current guidance requires the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to AOCI. The amount of the reclassification would include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts at the date of the enactment of the TCJA related to items in AOCI. The updated guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company early adopted this guidance effective January 1, 2018 with a cumulative effect adjustment, which reclassified $6.5 million of benefits from AOCI to retained earnings with no overall impact on the Company's financial position.

In March 2017, the FASB issued ASC Update No. 2017-07, (Topic 715) Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This guidance requires that an employer report in its income statement the service cost component of both net periodic pension and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by pertinent employees during the period, and present in the income statement separately from the other components of benefit cost, if appropriate under the company's current presentation of its income statement. Additionally, the guidance allows only the service cost component to be eligible for capitalization when applicable. The updated guidance is effective for annual and interim periods beginning after December 15, 2017, and should be applied retrospectively for the presentation of the service cost component and other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement, and prospectively for the capitalization of the service cost component of net periodic cost in assets. The Company implemented this guidance effective January 1, 2018. The effect of implementing this guidance was not material to the Company's financial position or results of operations as the Company does not have any service cost remaining related to its pension and postretirement plans.

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In January 2017, the FASB issued ASC Update No. 2017-01, (Topic 805) Business Combinations – Clarifying the Definition of a Business. The amendments in this update provide a more robust framework to use in determining when a set of assets and activities constitute a business. This guidance narrows the definition of a business by providing specific requirements that contribute to the creation of outputs that must be present to be considered a business. The guidance further clarifies the appropriate accounting when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets is that of an acquisition (disposition) of assets, not a business. This framework will reduce the number of transactions that an entity must further evaluate to determine whether transactions are business combinations or asset acquisitions. The updated guidance is effective for interim and annual periods beginning after December 15, 2017, and should be applied on a prospective basis. Early adoption is permitted only for transactions that have not been reported in financial statements that have been issued. The Company implemented this guidance effective January 1, 2018. The implementation of this guidance did not have an effect on the Company’s financial position or results of operations.

In November 2016, the FASB issued ASC Update No. 2016-18 (Topic 230) Statement of Cash Flows – Restricted Cash (a consensus of the FASB Emerging Issues Task Force). The amendments in this update require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Current GAAP does not include specific guidance on the cash flow classification and presentation of changes in restricted cash. The updated guidance is effective for interim and annual periods beginning after December 15, 2017 and is required to be applied using a retrospective transition method to each period presented. The Company implemented this guidance effective January 1, 2018. Implementing this guidance did not have an impact on the Company’s statement of cash flows, as restricted cash, if any, has already been included in total cash and cash equivalents.

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 implemented this guidance effective January 1, 2018. Implementation of this guidance did not have a net impact on the Company’s financial position or results of operations.

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. The Company implemented this guidance effective January 1, 2018. The adoption of ASC Update No. 2016-15 did not have a significant impact on the Company’s statement of cash flows.

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 (“ASU No. 2016-01”). 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, replacing it with other methods, including the use of Net Asset

Value ("NAV"). 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. In February 2018, the FASB issued ASC Update No. 2018-03, (Subtopic 825-10) Technical Corrections and Improvements to Financial Instruments – Overall. This ASC update clarifies the transition method for equity investments without readily determinable fair values. Specifically, if an entity elects to measure these investments at cost, less impairment, adjusted for changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer (the "measurement alternative"), then transition is prospective. For all others, transition is modified retrospective, requiring a cumulative effect adjustment. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those years beginning after June 15, 2018. Early adoption is permitted for interim periods beginning after December 15, 2017 as long as ASU No. 2016-01 has been adopted. The Company implemented this guidance effective January 1, 2018 concurrent with ASU No. 2016-01 for certain limited partnerships without readily determinable fair values. The implementation of these standards resulted in a benefit to retained earnings, through a cumulative effect adjustment, of $97.8 million, including a reclassification of after-tax unrealized gains of $95.2 million from AOCI and an adjustment of $2.6 million of gains to record partnership investments at NAV.

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In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) Revenue from Contracts with Customers. This ASC was issued to clarify the principles for recognizing revenue. Insurance contracts and financial instrument transactions are not within the scope of this updated guidance, and; therefore, only an insignificant amount of the Company's revenue is subject to this updated guidance. In August 2015, the FASB issued ASC Update No. 2015-14, (Topic 606) Revenue from Contracts with Customers, which deferred the effective date of ASC Update No. 2014-09 by one year. Accordingly, the updated guidance is effective for periods beginning after December 15, 2017. The Company implemented this guidance effective January 1, 2018. The effect of implementing this guidance was not material to the Company's financial position or results of operations.

Recently Issued Standards

In August 2018, the FASB issued ASC Update No. 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASC Update No. 2018-15"). This ASC update requires the capitalization of implementation costs incurred in a hosting arrangement that is a service contract consistent with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance also requires an entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting agreement, and apply impairment guidance consistent with long-lived assets. ASC Update No. 2018-15 also provides specific guidelines related to the presentation of these capitalized implementation costs and related expenses in the financial statements. The updated guidance is effective for interim and annual periods beginning after December 15, 2019, and should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted, including interim periods. The Company does not expect the adoption of ASC Update No. 2018-15 to have a material impact on its financial position or results of operations.

In August 2018, the FASB issued ASC Update No. 2018-14 (Topic 715-20) Compensation – Retirement Benefits – Defined Benefit Plans – General – Disclosure Framework – Changes to the Disclosure Requirements for the Defined Benefit Plans. This ASC update modifies disclosures related to defined benefit pension or other postretirement plans. This ASC update removes the disclosure of amounts in accumulated other comprehensive income expected to be recognized over the next fiscal year and the effects of a one percentage point change of health care cost trends on net periodic benefit costs and postretirement benefit obligations and clarifies the specific requirements of disclosures related to the project benefit obligation and accumulated benefit obligation. This ASC Update also adds disclosures related to weighted average crediting rates for cash balance plans and requires disclosure of an explanation of any significant gains and losses related to changes in benefit obligations for the period. The amendments in this ASC update are effective for fiscal years ending after December 15, 2020, and should be applied on a retrospective basis to all periods presented. Early adoption is permitted. Implementing this guidance is not expected to have an impact on the Company's financial position or results of operations as the update is disclosure related.

In August 2018, the FASB issued ASC Update No. 2018-13 (Topic 820) Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The update removes the requirement for disclosure of the following: 1) the amount and reasons for transfers between level 1 and level 2 of the fair value hierarchy, 2) the policy for timing of transfers between levels, and 3) the valuation processes for level 3 fair value measurements. This update also added a requirement to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop level 3 fair value measurements, in addition to other fair value disclosure modifications. The updated guidance is effective for interim and annual periods beginning after December 15, 2019, and should be applied prospectively for certain of the disclosure requirements and retrospectively to all periods presented upon the effective date for other disclosure requirements. An entity is permitted to early adopt any removed or modified disclosures upon issuance of the update and delay adoption of additional disclosures until periods beginning after December 15, 2019, the effective date of the standard. Implementing this guidance is not expected to have an impact on the Company’s financial position on results of operations as the update is disclosure related.

In March 2017, the FASB issued ASC Update No. 2017-08, (Subtopic 310-20) Receivables – Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities. This guidance shortens the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The updated guidance is effective for annual and interim periods beginning after December 15, 2018, and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASC Update No. 2017-08 to have a material impact on its financial position or results of operations.

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In January 2017, the FASB issued ASC Update No. 2017-04, (Topic 350) Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment. This guidance eliminates step 2 from the goodwill impairment test. Instead, an entity should perform its goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, including any applicable income tax effects, and recognize an impairment for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASC Update No. 2017-04 to have a material impact on its financial position or results of operations.

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 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 interim and annual periods beginning after December 15, 2019. 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 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. ASC Update No. 2016-02 requires that implementation of this guidance be through a modified retrospective transition approach. In July 2018, the FASB issued ASC Update No. 2018-11, (Topic 842) Leases Targeted Improvements, which provides entities with an additional transition method to adopt ASC Update No. 2016-02. Under this optional transition method, an entity can initially apply the new guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The updated guidance in ASC Update No. 2016-02 is effective for interim and annual periods beginning after December 15, 2018 and the Company expects to adopt the guidance using the optional transition method provided in ASC Update No. 2018-11. Additionally, the Company plans to elect the practical expedient package available in ASC Update No. 2017-02 upon adoption. It is expected that total assets and total liabilities will each increase by approximately $40 million to $50 million upon implementation, and that the adoption of this ASC update is not expected to be material to the Company’s results of operations.

3. Discontinued Chaucer Business

On September 13, 2018, the Company entered into a definitive agreement to sell Chaucer to China Re, for cash consideration of up to $865 million, consisting of initial consideration of $820 million, payable at closing, and contingent consideration of $45 million to be held in escrow. This contingent consideration may be adjusted downward if catastrophe losses incurred in 2018 are above a certain threshold. The Company anticipates that this transaction will result in a net gain. Several factors will affect the ultimate amount of the net gain recognized at the completion of the transaction, including the future earnings of the Chaucer business, the level of catastrophe losses incurred during 2018, the value of investment securities at closing and various tax attributes. The transaction is anticipated to close late this year or in the first quarter of next year, subject to regulatory approvals and other customary closing conditions. THG has agreed to indemnify China Re for certain litigation, regulatory matters and other liabilities related to pre-closing activities of the business being sold.

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The following table summarizes the results of Chaucer’s operations:

(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Revenues				
Net premiums earned	$212.4	$222.5	$648.2	$632.4
Net investment income	12.8	13.4	41.7	37.1
Other income	1.9	2.7	5.4	5.0
	227.1	238.6	695.3	674.5
Losses and operating expenses				
Losses and LAE	137.0	221.7	364.3	431.7
Amortization of deferred acquisition costs	60.1	63.7	196.7	180.5
Other expenses	26.2	27.0	85.7	81.5
	223.3	312.4	646.7	693.7
Income (loss) from discontinued Chaucer business before income taxes and other items (previously presented as Chaucer's operating income (loss))	3.8	(73.8)	48.6	(19.2)
Other items:				
Interest expense	(1.5)	(0.8)	(2.8)	(2.4)
Net realized and unrealized investment gains (losses)	0.1	0.1	(0.4)	0.7
Expenses related to the anticipated sale of Chaucer	(6.9)	-	(8.7)	-
Other income (expense)	(0.2)	0.7	0.4	2.2
Income (loss) from discontinued Chaucer business before income taxes	$(4.7)	$(73.8)	$37.1	$(18.7)
Income tax benefit (expense)	1.1	26.6	(6.6)	10.4
Income (loss) from discontinued Chaucer business, net of income taxes	$(3.6)	$(47.2)	$30.5	$(8.3)

The following table details the carrying amounts of major assets and liabilities reflected in the Consolidated Balance Sheets under the caption “Assets held-for-sale” and “Liabilities held-for-sale”, respectively.

(in millions)	September 30, 2018	December 31, 2017
Assets:		
Investments	$ 1,923.4	$ 2,153.5
Cash and cash equivalents	133.4	78.5
Accrued investment income	12.7	14.5
Premiums and accounts receivable, net	558.3	471.9

Deferred acquisition costs	121.4	120.2
Reinsurance recoverable on paid and unpaid losses and unearned premiums	1,278.8	1,431.5
Goodwill	13.0	13.8
Other assets	206.2	182.7
Total assets held-for-sale	$ 4,247.2	$ 4,466.6
Liabilities:		
Loss and loss adjustment expense reserves	2,472.5	2,686.5
Unearned premiums	706.7	631.9
Reinsurance premium payable	375.7	293.3
Other liabilities	105.5	95.5
Total liabilities held-for-sale	$ 3,660.4	$ 3,707.2

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The following table details the cash flows associated with the discontinued Chaucer business:

(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Net cash provided by operating activities	$60.2	$39.9	$46.2	$68.9
Net cash (used in) provided by investing activities	$(31.7)	$(97.2)	$64.3	$(104.4)

4. Income Taxes

Income tax expense for the nine months ended September 30, 2018 and 2017 has been computed using estimated annual effective tax rates. These rates reflect the change in the U.S. statutory tax rate from 35% to 21%, effective January 1, 2018 and recomputed income to exclude discontinued Chaucer business. These rates are revised, if necessary, at the end of each successive interim period to reflect current estimates of the annual effective tax rates.

The tax provision was comprised of U.S. federal income tax expense of $44.5 million and $53.4 million for the nine months ended September 30, 2018 and 2017, respectively. The tax provision recorded in discontinued operations related to discontinued Chaucer business for the nine months ended September 30, 2018 was comprised of a $0.2 million U.S. federal income tax benefit and a $6.8 million foreign income tax expense. For the nine months ended September 30, 2017, the tax provision recorded in discontinued operations was comprised of a $6.1 million U.S. federal income tax expense and a $16.5 million foreign income tax benefit.

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 and state income tax examinations and foreign examinations for years after 2014.

5. Investments

A. Fixed maturities

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

	September 30, 2018				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Unrealized Losses
U.S. Treasury and government agencies	$415.8	$ 1.2	$ 14.8	$402.2	$ —
Foreign government	7.3	0.1	—	7.4	—
Municipal	888.2	13.7	15.6	886.3	—
Corporate	3,429.6	30.6	86.4	3,373.8	6.4

Residential mortgage-backed	731.8	1.0	25.7	707.1	—
Commercial mortgage-backed	645.1	0.6	15.2	630.5	—
Asset-backed	86.5	—	1.2	85.3	—
Fixed maturities, excluding held-for-sale (Chaucer)	6,204.3	47.2	158.9	6,092.6	6.4
Fixed maturities, held-for-sale	1,841.7	6.7	41.5	1,806.9	0.4
Total fixed maturities	$8,046.0	$ 53.9	$ 200.4	$7,899.5	$ 6.8

	December 31, 2017				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Unrealized Losses
U.S. Treasury and government agencies	$322.1	$ 3.4	$ 3.2	$322.3	$ —
Foreign government	8.2	0.3	—	8.5	—
Municipal	910.1	29.7	5.8	934.0	—
Corporate	3,134.2	84.1	21.7	3,196.6	6.5
Residential mortgage-backed	632.3	5.8	4.9	633.2	—
Commercial mortgage-backed	590.3	7.2	2.5	595.0	—
Asset-backed	59.9	0.1	0.3	59.7	—
Fixed maturities, excluding held-for-sale (Chaucer)	5,657.1	130.6	38.4	5,749.3	6.5
Fixed maturities, held-for-sale	2,031.7	14.6	15.9	2,030.4	0.4
Total fixed maturities	$7,688.8	$ 145.2	$ 54.3	$7,779.7	$ 6.9

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Other-than-temporary impairments ("OTTI") unrealized losses in the tables above represent OTTI recognized in accumulated other comprehensive income ("AOCI"). 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 $9.1 million and $11.0 million as of September 30, 2018 and December 31, 2017, respectively.

The Company deposits funds with various state and governmental authorities. 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, 2017.

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, 2018	
(in millions)	Amortized Cost	Fair Value
Due in one year or less	$184.8	$186.5
Due after one year through five years	1,797.6	1,798.9
Due after five years through ten years	2,464.5	2,389.7
Due after ten years	294.0	294.6
	4,740.9	4,669.7
Mortgage-backed and asset-backed securities	1,463.4	1,422.9
Fixed maturities, excluding held-for-sale (Chaucer)	6,204.3	6,092.6
Fixed maturities, held-for-sale	1,841.7	1,806.9
Total fixed maturities	$8,046.0	$7,899.5

B. Fixed maturity securities in an unrealized loss position

The following tables provide information about the Company's available-for-sale fixed maturity securities that were in an unrealized loss position at September 30, 2018 and December 31, 2017 including the length of time the securities have been in an unrealized loss position:

	September 30, 2018					
	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
Investment grade:						
U.S. Treasury and government agencies	$6.9	$243.2	$7.9	$124.1	$14.8	$367.3

Foreign governments	—	2.8	—	—	—	2.8
Municipal	5.8	251.8	9.8	161.8	15.6	413.6
Corporate	36.0	1,589.5	41.6	633.8	77.6	2,223.3
Residential mortgage-backed	10.4	419.0	15.3	241.6	25.7	660.6
Commercial mortgage-backed	10.5	476.3	4.7	99.6	15.2	575.9
Asset-backed	1.1	69.7	0.1	5.6	1.2	75.3
Total investment grade	70.7	3,052.3	79.4	1,266.5	150.1	4,318.8
Below investment grade:						
Municipal	—	0.9	—	—	—	0.9
Corporate	2.5	87.8	6.3	42.4	8.8	130.2
Total below investment grade	2.5	88.7	6.3	42.4	8.8	131.1
Fixed maturities, excluding held-for-sale (Chaucer)	73.2	3,141.0	85.7	1,308.9	158.9	4,449.9
Fixed maturities, held-for-sale	15.7	974.4	25.8	612.4	41.5	1,586.8
Total fixed maturities	$88.9	$4,115.4	$111.5	$1,921.3	$200.4	$6,036.7

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	December 31, 2017					
	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
Investment grade:						
U.S. Treasury and government agencies	$1.1	$146.3	$2.1	$62.3	$3.2	$208.6
Foreign governments	—	0.1	—	0.6	—	0.7
Municipal	1.7	183.8	4.1	101.2	5.8	285.0
Corporate	3.0	386.2	10.8	395.9	13.8	782.1
Residential mortgage-backed	1.4	196.3	3.5	159.0	4.9	355.3
Commercial mortgage-backed	0.9	139.2	1.6	61.9	2.5	201.1
Asset-backed	0.3	34.6	—	2.4	0.3	37.0
Total investment grade	8.4	1,086.5	22.1	783.3	30.5	1,869.8
Below investment grade:						
Corporate	1.5	48.7	6.4	39.0	7.9	87.7
Fixed maturities, excluding held-for-sale (Chaucer)	9.9	1,135.2	28.5	822.3	38.4	1,957.5
Fixed maturities, held-for-sale	5.7	803.3	10.2	389.6	15.9	1,192.9
Total fixed maturities	$15.6	$1,938.5	$38.7	$1,211.9	$54.3	$3,150.4

The Company views gross unrealized losses on fixed maturities 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. In determining OTTI, 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 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 amortized cost. The Company also 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.

C. Proceeds from sales

The proceeds from sales of available-for-sale securities and gross realized gains and gross realized losses on those sales were as follows:

	Three Months Ended September 30,					
	2018			2017		
(in millions)	Proceeds from Sales	Gross Gains	Gross Losses	Proceeds from Sales	Gross Gains	Gross Losses
Fixed maturities, excluding held-for-sale (Chaucer)	$83.8	$ 0.8	$ 1.5	$47.0	$ 2.4	$ 0.3
Fixed maturities, held-for-sale	21.4	0.2	0.1	45.6	0.6	0.2
Total fixed maturities	$105.2	$ 1.0	$ 1.6	$92.6	$ 3.0	$ 0.5

	Nine Months Ended September 30,					
	2018			2017		
(in millions)	Proceeds from Sales	Gross Gains	Gross Losses	Proceeds from Sales	Gross Gains	Gross Losses
Fixed maturities, excluding held-for-sale (Chaucer)	$225.1	$ 2.0	$ 5.3	$176.9	$ 6.4	$ 1.7
Fixed maturities, held-for-sale	172.5	1.3	1.1	145.8	1.8	0.2
Total fixed maturities	$397.6	$ 3.3	$ 6.4	$322.7	$ 8.2	$ 1.9

D. Other-than-temporary impairments

For the three months ended September 30, 2018, total OTTI from continuing operations was $0.7 million, which consisted entirely of fixed maturities. Of this amount, $0.4 million was recognized in earnings and the remaining $0.3 million was recorded as unrealized losses in AOCI. For the nine months ended September 30, 2018, total OTTI from continuing operations was $3.4 million, consisting primarily of fixed maturities and other invested assets. Of this amount, $2.8 million was recognized in earnings and the remaining $0.6 million was recorded as unrealized losses in AOCI.

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For the three months ended September 30, 2017, total OTTI from continuing operations was $1.5 million, consisting primarily of fixed maturities. Of this amount, $1.3 million was recognized in earnings and the remaining $0.2 million was recorded as unrealized losses in AOCI. For the nine months ended September 30, 2017, total OTTI from continuing operations was $4.9 million, consisting of equity securities, fixed maturities and other invested assets. Of this amount, $4.5 million was recognized in earnings and the remaining $0.4 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 2018 and 2017 were as follows:

Corporate bonds – the Company utilized a financial model that derives expected cash flows based on probability-of-default factors by credit rating and asset duration and loss-given-default factors based on security type. These factors are based on historical data provided by an independent third-party rating agency. In addition, other market data relevant to the realizability of contractual cash flows may be considered.

The following table provides rollforwards of the cumulative amounts related to the credit loss portion of the OTTI losses on fixed maturity securities from continuing operations for which the non-credit portion of the loss is included in other comprehensive income.

(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Credit losses at beginning of period, excluding held-for-sale (Chaucer)	$3.7	$9.2	$3.6	$9.6
Credit losses for which an OTTI was not previously recognized	0.2	0.2	1.0	0.4
Additional credit losses on securities for which an OTTI was previously recognized	—	—	0.1	0.1
Reductions for securities sold, matured or called	—	(1.9)	(0.8)	(2.6)
Reductions for securities reclassified as intended to sell	—	(0.4)	—	(0.4)
Credit losses at end of period, excluding held-for-sale (Chaucer)	$3.9	$7.1	$3.9	$7.1

For the three and nine months ended September 30, 2018, total OTTI from discontinued operations of Chaucer was $0.2 million and $0.4 million, respectively. For both the three and nine months ended September 30, 2017, total OTTI from discontinued operations of Chaucer was $0.1 million.

E. Equity securities

Equity securities are carried at fair value. Effective January 1, 2018, all increases or decreases in fair value on equity securities are reported in net realized and unrealized investment gains (losses) on the Consolidated Statements of Income. Previously, equity securities were categorized as available-for-sale and unrealized gains and losses were reported in AOCI, a separate component of shareholders' equity. As of December 31, 2017, we held equity securities with a fair value of $576.2 million and a cost of $433.7 million. On January 1, 2018, the Company recorded a cumulative effect adjustment which included the reclassification of net unrealized gains on equities of $142.5 million, pre-tax, from AOCI to retained earnings.

The following table provides pre-tax realized and unrealized gains (losses) on equity securities recognized in net income from continuing operations during the three and nine months ended September 30, 2018:

(in millions)	Three Months Ended	Nine Months Ended
Net gains recognized during the period	$ 23.6	$ 6.7
Less: net losses recognized on equity securities sold during the period	(0.2)	(1.0)
Net unrealized gains recognized during the period on equity securities still held	$ 23.8	$ 7.7

During the three and nine months ended September 30, 2017, there were changes in net unrealized gains on equity securities of $7.9 million and $37.2 million, respectively, recognized in AOCI and net realized gains from sales of equity securities of $11.8 million and $17.6 million, respectively, recognized in earnings. Proceeds from the sale of equities for the three and nine months ended September 30, 2017 were $68.2 million and $114.5 million, respectively.

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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.

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.

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 techniques 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.

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- 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 techniques, as discussed in the determination of Level 2 fair values, to the extent it is available, but is also required to use a certain amount of unobservable judgment due to the illiquid nature of the securities involved. Unobservable judgment reflected in the Company's matrix model accounts for estimates of additional spread required by market participants for factors such as issue size, structural complexity, high bond coupon or other unique features. These matrix-priced securities are reported as Level 2 or Level 3, depending on the significance of the impact of unobservable judgment on the security's value. Additionally, the Company may obtain non-binding broker quotes which are reported as Level 3.

Equity Securities

Level 1 consists of publicly traded securities, including exchange traded funds, valued at quoted market prices. Level 2 includes securities that are valued using pricing for similar securities and pricing models that incorporate observable inputs. Level 3 consists of common or preferred stock of private companies for which observable inputs are not available.

The Company utilizes a third party pricing service for the valuation of the majority of its equity securities and receives one quote for each equity security. When quoted market prices in an active market are available, they are provided by the pricing service as the fair value and such values are classified as Level 1. The Company holds certain equity securities that have been issued by privately-held entities that do not have an active market and for which the pricing service cannot provide fair values. Generally, the Company estimates fair value for these securities based on the issuer's book value and market multiples and reports them as Level 3. Additionally, the Company may obtain non-binding broker quotes which are reported as Level 3.

Other Investments

Other investments primarily include mortgage participations, limited partnerships not subject to equity method of accounting, and overseas trust funds required in connection with the Company's Lloyd's business (currently held-for-sale). The fair values of limited partnerships not subject to the equity method of accounting are based on the net asset value provided by the general partner adjusted for recent financial information and are excluded from the fair value hierarchy. 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.

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The estimated fair value of the financial instruments, including our Chaucer business held-for-sale, were as follows:

	September 30, 2018		December 31, 2017	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Instruments carried at [(1)]:				
Fair Value through AOCI:				
Fixed maturities	$7,899.5	$7,899.5	$7,779.7	$7,779.7
Equity securities	—	—	576.5	576.5
Other investments	—	—	3.6	3.6
Fair Value through Net Income:				
Equity securities	575.0	575.0	—	—
Other investments	285.8	285.8	122.8	122.8
Amortized Cost/Cost:				
Other investments	403.1	403.7	512.8	518.3
Cash and cash equivalents	251.3	251.3	376.4	376.4
Total financial instruments, including held-for-sale	9,414.7	9,415.3	9,371.8	9,377.3
Financial instruments, held-for-sale (Chaucer)	2,056.8	2,056.8	2,232.0	2,232.0
Total financial instruments, excluding held-for-sale	$7,357.9	$7,358.5	$7,139.8	$7,145.3
Financial Liabilities carried at:				
Amortized Cost:				
Debt	$777.6	$823.9	$786.9	$865.7

(1) Due to the adoption of ASU No. 2016-01, certain classifications are not comparable to the prior year. See Note 2 – "New Accounting Pronouncements".

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 approaches and 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 2018 and 2017, 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.

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The following tables provide, for each hierarchy level, the Company's assets that were measured at fair value on a recurring basis, including those of our Chaucer business which is held-for-sale.

	September 30, 2018			
(in millions)	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	$604.7	$235.5	$369.2	$ —
Foreign government	207.2	20.4	186.8	—
Municipal	1,026.9	—	1,003.4	23.5
Corporate	4,319.8	—	4,319.1	0.7
Residential mortgage-backed, U.S. agency backed	1,020.9	—	1,020.9	—
Residential mortgage-backed, non-agency	2.8	—	2.8	—
Commercial mortgage-backed	631.9	—	618.9	13.0
Asset-backed	85.3	—	85.3	—
Total fixed maturities	7,899.5	255.9	7,606.4	37.2
Equity securities	575.0	573.9	—	1.1
Other investments	119.9	—	116.3	3.6
Total investment assets at fair value, including held-for-sale	8,594.4	829.8	7,722.7	41.9
Investment assets, held-for-sale (Chaucer)	1,923.4	103.4	1,817.8	2.2
Total investment assets, excluding held-for-sale	$6,671.0	$726.4	$5,904.9	$ 39.7

	December 31, 2017			
(in millions)	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	$511.4	$227.6	$283.8	$ —
Foreign government	242.7	50.1	192.6	—
Municipal	1,076.0	—	1,049.2	26.8
Corporate	4,307.5	—	4,306.6	0.9
Residential mortgage-backed, U.S. agency backed	956.4	—	956.4	—
Residential mortgage-backed, non-agency	29.6	—	29.6	—
Commercial mortgage-backed	596.4	—	582.2	14.2
Asset-backed	59.7	—	59.7	—
Total fixed maturities	7,779.7	277.7	7,460.1	41.9
Equity securities	568.1	567.0	—	1.1
Other investments	126.4	—	122.8	3.6
Total investment assets at fair value, including held-for-sale	8,474.2	844.7	7,582.9	46.6
Investment assets, held-for-sale (Chaucer)	2,153.5	138.0	2,013.3	2.2
Total investment assets, excluding held-for-sale	$6,320.7	$706.7	$5,569.6	$ 44.4

Limited partnerships measured at fair value using NAV based on an ownership interest in partners' capital have not been included in the tables below. At September 30, 2018 and December 31, 2017, the fair values of these investments were $165.9 million and $149.4 million, respectively, which are less than 2% of total investment assets, including assets held-for-sale.

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

	September 30, 2018			
(in millions)	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$251.3	$251.3	$—	$—
Other investments	403.7	—	8.7	395.0
Total financial instruments, including held-for-sale	655.0	251.3	8.7	395.0
Financial instruments, held-for-sale (Chaucer)	133.4	133.4	—	—
Total financial instruments, excluding held-for-sale	$521.6	$117.9	$8.7	$395.0
Liabilities:				
Debt	$823.9	$—	$823.9	$—

	December 31, 2017			
(in millions)	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$376.4	$376.4	$—	$—
Equity securities	8.4	—	8.4	—
Other investments	368.9	—	—	368.9
Total financial instruments, including held-for-sale	753.7	376.4	8.4	368.9
Financial instruments, held-for-sale (Chaucer)	78.5	78.5	—	—
Total financial instruments, excluding held-for-sale	$675.2	$297.9	$8.4	$368.9
Liabilities:				
Debt	$865.7	$—	$865.7	$—

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The tables below provide a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), including the held-for-sale assets of our Chaucer business.

	Fixed Maturities					
(in millions)	Municipal	Corporate	Commercial mortgage-backed	Total	Equity and Other	Total Assets
Three Months Ended September 30, 2018						
Balance July 1, 2018	$24.4	$ 0.8	$ 13.3	$38.5	$ 4.7	$43.2
Transfers out of Level 3	(0.5)	—	—	(0.5)	—	(0.5)
Total losses:						
Included in other comprehensive income-net depreciation on available-for-sale securities	—	—	(0.2)	(0.2)	—	(0.2)
Sales	(0.4)	(0.1)	(0.1)	(0.6)	—	(0.6)
Balance September 30, 2018, including held-for-sale	23.5	0.7	13.0	37.2	4.7	41.9
Balance September 30, 2018, held-for-sale (Chaucer)	2.2	—	—	2.2	—	2.2
Balance September 30, 2018, excluding held-for-sale	$21.3	$ 0.7	$ 13.0	$35.0	$ 4.7	$39.7
Three Months Ended September 30, 2017						
Balance July 1, 2017	$30.1	$ 1.0	$ 14.6	$45.7	$ 5.6	$51.3
Transfers out of Level 3	(1.9)	—	—	(1.9)	(0.4)	(2.3)
Total gains:						
Included in other comprehensive income-net appreciation on available-for-sale securities	0.2	—	—	0.2	—	0.2
Sales	(0.3)	(0.1)	(0.2)	(0.6)	—	(0.6)
Balance September 30, 2017, including held-for-sale	28.1	0.9	14.4	43.4	5.2	48.6
Balance September 30, 2017, held-for-sale (Chaucer)	2.2	—	—	2.2	—	2.2
Balance September 30, 2017, excluding held-for-sale	$25.9	$ 0.9	$ 14.4	$41.2	$ 5.2	$46.4

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	Fixed Maturities					
(in millions)	Municipal	Corporate	Commercial mortgage-backed	Total	Equity and Other	Total Assets
Nine Months Ended September 30, 2018						
Balance January 1, 2018	$26.8	$ 0.9	$ 14.2	$41.9	$ 4.7	$46.6
Transfers out of Level 3	(0.5)	—	—	(0.5)	—	(0.5)
Total gains (losses):						
Included in total net realized and unrealized investment gains	0.1	—	—	0.1	—	0.1
Included in other comprehensive income-net depreciation on available-for-sale securities	(0.6)	—	(0.5)	(1.1)	—	(1.1)
Sales	(2.3)	(0.2)	(0.7)	(3.2)	—	(3.2)
Balance September 30, 2018, including held-for-sale	23.5	0.7	13.0	37.2	4.7	41.9
Balance September 30, 2018, held-for-sale (Chaucer)	2.2	—	—	2.2	—	2.2
Balance September 30, 2018, excluding held-for-sale	$21.3	$ 0.7	$ 13.0	$35.0	$ 4.7	$39.7
Nine Months Ended September 30, 2017						
Balance January 1, 2017	$31.0	$ 4.2	$ 15.0	$50.2	$ 5.6	$55.8
Transfers out of Level 3	(1.9)	—	—	(1.9)	(0.4)	(2.3)
Total gains (losses):						
Included in total net realized and unrealized investment gains	—	0.3	—	0.3	—	0.3
Included in other comprehensive income-net appreciation (depreciation) on available-for-sale securities	0.6	(0.2)	0.1	0.5	—	0.5
Sales	(1.6)	(3.4)	(0.7)	(5.7)	—	(5.7)
Balance September 30, 2017, including held-for-sale	28.1	0.9	14.4	43.4	5.2	48.6
Balance September 30, 2017, held-for-sale (Chaucer)	2.2	—	—	2.2	—	2.2
Balance September 30, 2017, excluding held-for-sale	$25.9	$ 0.9	$ 14.4	$41.2	$ 5.2	$46.4

During the three and nine months ended September 30, 2018 and 2017, fixed maturities transferred from Level 3 to Level 2 primarily as a result of assessing the significance of unobservable inputs on the fair value measurement. During the three and nine months ended September 30, 2017, an equity security was transferred from Level 3 to Level 1 upon the availability of pricing from the third party pricing service. There were no transfers between Level 1 and Level 2 in 2018 and 2017. There were no Level 3 liabilities held by the Company in 2018 and 2017.

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The following table provides quantitative information about the significant unobservable inputs used by the Company in the fair value measurements of Level 3 assets, including our Chaucer business held-for-sale. 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. The table includes $2.2 million of municipal fixed maturities at September 30, 2018 and December 31, 2017 that are held for sale.

			September 30, 2018		December 31, 2017	
(in millions)	Valuation Technique	Significant Unobservable Inputs	Fair Value	Range (Wtd Average)	Fair Value	Range (Wtd Average)
Fixed maturities:						
Municipal	Discounted	Discount for:	$23.5		$26.8	
	cash flow	Small issue size		0.7 - 6.8% (3.2%)		0.7 - 6.8% (3.3%)
		Credit stress		1.3% (1.3%)		0.9 - 1.5% (1.2%)
		Above-market coupon		0.3 - 0.5% (0.5%)		0.3 - 0.5% (0.4%)
Corporate	Discounted	Discount for:	0.7		0.9	
	cash flow	Small issue size		2.5% (2.5%)		2.5% (2.5%)
		Above-market coupon		0.3% (0.3%)		0.3% (0.3%)
Commercial mortgage-backed	Discounted	Discount for:	13.0		14.2	
	cash flow	Small issue size		1.9 - 3.1% (2.7%)		1.9 - 3.1% (2.6%)
		Above-market coupon		0.5% (0.5%)		0.5% (0.5%)
		Lease structure		0.3% (0.3%)		0.3% (0.3%)
Equity securities	Market	Net tangible asset	1.1		1.1	
	comparables	market multiples		1.0X (1.0X)		1.0X (1.0X)
Other	Discounted	Discount rate	3.6	18.0% (18.0%)	3.6	18.0% (18.0%)
	cash flow					

Significant increases (decreases) in any of the above inputs in isolation would result in a significantly lower (higher) fair value measurement. There were no interrelationships between these inputs which might magnify or mitigate the effect of changes in unobservable inputs on the fair value measurement.

7. Pension and Other Postretirement Benefit Plans

The components of net periodic pension cost for defined benefit pension and other postretirement benefit plans included in the Company's results of operations are as follows:

	Three Months Ended September 30,			
	2018	2017	2018	2017
(in millions)	Pension Plans		Postretirement Plans	
Service cost - benefits earned during the period	$—	$—	$—	$—
Interest cost	5.0	5.4	0.1	0.1
Expected return on plan assets	(5.2)	(5.3)	—	—
Recognized net actuarial loss	2.4	3.4	—	—
Amortization of prior service cost	—	—	—	(0.3)
Net periodic pension cost (benefit)	$2.2	$3.5	$0.1	$(0.2)

	Nine Months Ended September 30,			
	2018	2017	2018	2017
(in millions)	Pension Plans		Postretirement Plans	
Service cost - benefits earned during the period	$—	$—	$—	$—
Interest cost	14.9	16.4	0.3	0.3
Expected return on plan assets	(15.5)	(16.1)	—	—
Recognized net actuarial loss	7.2	10.2	0.1	0.1
Amortization of prior service cost	—	—	(0.2)	(1.0)
Net periodic pension cost (benefit)	$6.6	$10.5	$0.2	$(0.6)

Net periodic pension benefit for Chaucer's pension plan of $0.7 million and $0.1 million for the three months ended September 30, 2018 and 2017, respectively, and $2.0 million and $0.2 million for the nine months ended September 30, 2018 and 2017, respectively, have been reported in discontinued operations and are not included in the amounts disclosed above.

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8. Other Comprehensive Income

The following tables provide changes in other comprehensive income (loss).

	Three Months Ended September 30,					
	2018			2017		
(in millions)	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Unrealized gains (losses) on available-for-sale securities:						
Unrealized gains (losses) arising during period	$(29.2)	$ 6.2	$(23.0)	$23.1	$ (8.0)	$15.1
Amount of realized gains (losses) from sales and other	(0.2)	(2.4)	(2.6)	(15.2)	3.0	(12.2)
Portion of other-than-temporary impairment losses recognized in earnings	0.5	(0.1)	0.4	1.3	(0.5)	0.8
Net unrealized gains (losses)	(28.9)	3.7	(25.2)	9.2	(5.5)	3.7
Pension and postretirement benefits:						
Net change in net actuarial loss and prior service cost	2.4	(0.5)	1.9	3.5	(1.2)	2.3
Cumulative foreign currency translation adjustment:						
Foreign currency translation recognized during the period	2.0	(0.4)	1.6	1.7	(0.6)	1.1
Other comprehensive income (loss)	$(24.5)	$ 2.8	$(21.7)	$14.4	$ (7.3)	$7.1

	Nine Months Ended September 30,					
	2018			2017		
(in millions)	Pre-Tax	Tax Benefit (Expense)	Net of Tax	Pre-Tax	Tax Benefit (Expense)	Net of Tax
Unrealized gains (losses) on available-for-sale securities:						
Unrealized gains (losses) arising during period	$(242.1)	$ 50.9	$(191.2)	$102.1	$ (35.8)	$66.3
Amount of realized gains (losses) from sales and other	—	(8.2)	(8.2)	(26.5)	0.6	(25.9)
Portion of other-than-temporary impairment	2.0	(0.4)	1.6	3.3	(1.2)	2.1

losses recognized in earnings						
Net unrealized gains (losses)	(240.1)	42.3	(197.8)	78.9	(36.4)	42.5
Pension and postretirement benefits:						
Net change in net actuarial loss and prior service cost	0.6	(0.1)	0.5	10.5	(3.5)	7.0
Cumulative foreign currency translation adjustment:						
Foreign currency translation recognized during the period	0.8	(0.2)	0.6	2.6	(0.9)	1.7
Other comprehensive income (loss)	$(238.7)	$ 42.0	$(196.7)	$92.0	$ (40.8)	$51.2

Reclassifications out of accumulated other comprehensive income were as follows:

(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income				Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains on available-for-sale securities	$(0.2)	$14.7	$1.6	$24.8	Net realized gains (losses) from sales and other
	(0.4)	(1.3)	(1.7)	(3.3)	Net other-than-temporary impairment losses on investments recognized in earnings
	(0.6)	13.4	(0.1)	21.5	Total before tax
	2.5	(2.4)	8.2	1.2	Tax benefit
	1.9	11.0	8.1	22.7	Continued Operations; Net of tax
	0.3	0.4	(1.5)	1.1	Discontinued Operations; Net of tax
	2.2	11.4	6.6	23.8	Net of tax
Amortization of defined benefit pension and postretirement plans	(2.5)	(3.1)	(7.2)	(9.3)	Loss adjustment expenses and other operating expenses
	0.5	1.1	1.5	3.3	Tax benefit
	(2.0)	(2.0)	(5.7)	(6.0)	Continued Operations; Net of tax
	—	(0.3)	(0.1)	(1.0)	Discontinued Operations; Net of tax
	(2.0)	(2.3)	(5.8)	(7.0)	Net of tax
Total reclassifications for the period	$0.2	$9.1	$0.8	$16.8	Benefit to income, net of tax

The amount reclassified from accumulated other comprehensive income for the pension and postretirement benefits was allocated approximately 40% to loss adjustment expenses and 60% to other operating expenses for the three and nine months ended September 30, 2018 and 2017.

9. Segment Information

The Company’s primary business operations include insurance products and services provided through three operating segments: Commercial Lines, Personal Lines and Other. Commercial Lines includes commercial multiple peril, commercial automobile, workers’ compensation, and other commercial coverages, such as inland marine, specialty program business, management and professional liability, surety and specialty property. Personal Lines includes personal automobile, homeowners and other personal coverages. Included in the Other segment are Opus Investment Management, Inc., which markets investment management services to institutions, pension funds and other organizations; earnings on holding company assets; holding company and other expenses, including certain costs associated with retirement benefits due to the Company's former life insurance employees and agents; and, a run-off voluntary pools business. On September 13, 2018, the Company entered into a definitive agreement to sell Chaucer. Accordingly, as of September 30, 2018 and for all prior periods, Chaucer's results have been classified as Discontinued Operations in the Consolidated Statements of Income and its assets and liabilities have been classified as held-for-sale in the Consolidated Balance Sheets (see Note 3 – "Discontinued Operations"). Certain ongoing expenses have been reclassified from Chaucer to the other three operating segments. The separate financial information is presented consistent with the way results are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company reports interest expense related to debt separately from the earnings of its operating segments. This consists of interest on the Company's senior debentures, subordinated debentures, collateralized borrowings with the Federal Home Loan Bank of Boston, and letter of credit facility.

Management evaluates the results of the aforementioned segments based on operating income before taxes, excluding interest expense on debt. Operating income before taxes excludes certain items which are included in net income, such as net realized and unrealized investment gains and losses. Such gains and losses are excluded since they are determined by interest rates, financial markets and the timing of sales. Also, operating income before taxes excludes net gains and losses on disposals of businesses, gains and losses related to the repayment of debt, discontinued operations, costs to acquire businesses, restructuring costs, the cumulative effect of accounting changes and certain other items. Although the items excluded from operating income before taxes may be important components in understanding and assessing the Company's overall financial performance, management believes that the presentation of operating income before taxes enhances an investor's understanding of the Company's results of operations by highlighting net income attributable to the core operations of the business. However, operating income before taxes should not be construed as a substitute for income before income taxes and operating income should not be construed as a substitute for net income.

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

(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Operating revenues:				
Commercial Lines	$687.4	$648.2	$2,045.7	$1,913.2
Personal Lines	452.4	421.0	1,331.8	1,234.3
Other				