

TRAVELERS COMPANIES, INC.

Form 10-Q

April 20, 2017

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

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: 001-10898

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## The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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**Minnesota**  
(State or other jurisdiction of  
incorporation or organization)

**41-0518860**  
(I.R.S. Employer  
Identification No.)

**485 Lexington Avenue**

**New York, NY 10017**

(Address of principal executive offices) (Zip Code)

**(917) 778-6000**

(Registrant's telephone number, including area code)

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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, 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  | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|  |                                     | Emerging growth company   | <input type="checkbox"/> |

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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 of the Registrant's Common Stock, without par value, outstanding at April 17, 2017 was 279,415,829.

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**The Travelers Companies, Inc.**

**Quarterly Report on Form 10-Q**

**For Quarterly Period Ended March 31, 2017**

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**EXHIBIT INDEX**

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF INCOME (Unaudited)**

(in millions, except per share amounts)

| For the three months ended March 31,                        | 2017           | 2016           |
|---|----------------|----------------|
| <b>Revenues</b>   |                |                |
| Premiums  | \$ 6,183       | \$ 5,981       |
| Net investment income                                       | 610            | 544            |
| Fee income  | 113            | 117            |
| Net realized investment gains (losses) (1)                  | 5              | (9)            |
| Other revenues  | 31             | 53             |
| <b>Total revenues</b>                                       | <b>6,942</b>   | <b>6,686</b>   |
| <b>Claims and expenses</b>                                  |                |                |
| Claims and claim adjustment expenses                        | 4,094          | 3,712          |
| Amortization of deferred acquisition costs                  | 1,003          | 971            |
| General and administrative expenses                         | 996            | 995            |
| Interest expense  | 89             | 91             |
| <b>Total claims and expenses</b>                            | <b>6,182</b>   | <b>5,769</b>   |
| <b>Income before income taxes</b>                           | <b>760</b>     | <b>917</b>     |
| Income tax expense  | 143            | 226            |
| <b>Net income</b>   | <b>\$ 617</b>  | <b>\$ 691</b>  |
| <b>Net income per share</b>                                 |                |                |
| Basic   | \$ 2.19        | \$ 2.33        |
| Diluted   | \$ 2.17        | \$ 2.30        |
| <b>Weighted average number of common shares outstanding</b> |                |                |
| Basic   | 279.7          | 294.2          |
| Diluted   | 282.4          | 297.9          |
| <b>Cash dividends declared per share</b>                    | <b>\$ 0.67</b> | <b>\$ 0.61</b> |

(1) Total other-than-temporary impairment (OTTI) losses were \$(1) million and \$(28) million for the three months ended March 31, 2017 and 2016, respectively. Of total OTTI, credit losses of \$(2) million and \$(18) million for the three months ended March 31, 2017 and 2016,

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respectively, were recognized in net realized investment gains (losses). In addition, unrealized gains (losses) from other changes in total OTTI of \$1 million and \$(10) million for the three months ended March 31, 2017 and 2016, respectively, were recognized in other comprehensive income as part of changes in net unrealized gains on investment securities having credit losses recognized in the consolidated statement of income.

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

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**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)**

(in millions)

| For the three months ended March 31,                                       | 2017          | 2016            |
|--|---------------|-----------------|
| <b>Net income</b>  | <b>\$ 617</b> | <b>\$ 691</b>   |
| <b>Other comprehensive income:</b>   |               |                 |
| Changes in net unrealized gains on investment securities:                  |               |                 |
| Having no credit losses recognized in the consolidated statement of income | 144           | 714             |
| Having credit losses recognized in the consolidated statement of income    |               | 5               |
| Net changes in benefit plan assets and obligations                         | 17            | 16              |
| Net changes in unrealized foreign currency translation                     | 41            | 103             |
| <b>Other comprehensive income before income taxes</b>                      | <b>202</b>    | <b>838</b>      |
| Income tax expense   | 62            | 267             |
| <b>Other comprehensive income, net of taxes</b>                            | <b>140</b>    | <b>571</b>      |
| <b>Comprehensive income</b>  | <b>\$ 757</b> | <b>\$ 1,262</b> |

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



Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(in millions)

|  | March 31,<br>2017<br>(Unaudited) | December 31,<br>2016 |
|--|----------------------------------|----------------------|
| <b>Assets</b>  |                                  |                      |
| Fixed maturities, available for sale, at fair value (amortized cost \$60,269 and \$59,650) | \$ 61,268                        | \$ 60,515            |
| Equity securities, available for sale, at fair value (cost \$512 and \$504)                | 751                              | 732                  |
| Real estate investments  | 926                              | 928                  |
| Short-term securities  | 4,817                            | 4,865                |
| Other investments  | 3,495                            | 3,448                |
| <b>Total investments</b>   | <b>71,257</b>                    | <b>70,488</b>        |
| Cash   | 249                              | 307                  |
| Investment income accrued  | 575                              | 630                  |
| Premiums receivable  | 7,012                            | 6,722                |
| Reinsurance recoverables   | 8,199                            | 8,287                |
| Ceded unearned premiums  | 745                              | 589                  |
| Deferred acquisition costs   | 1,987                            | 1,923                |
| Deferred taxes   | 261                              | 465                  |
| Contractholder receivables   | 4,668                            | 4,609                |
| Goodwill   | 3,584                            | 3,580                |
| Other intangible assets  | 266                              | 268                  |
| Other assets   | 2,443                            | 2,377                |
| <b>Total assets</b>  | <b>\$ 101,246</b>                | <b>\$ 100,245</b>    |
| <b>Liabilities</b>   |                                  |                      |
| Claims and claim adjustment expense reserves   | \$ 48,320                        | \$ 47,949            |
| Unearned premium reserves  | 12,814                           | 12,329               |
| Contractholder payables  | 4,668                            | 4,609                |
| Payables for reinsurance premiums  | 429                              | 273                  |
| Debt   | 6,438                            | 6,437                |
| Other liabilities  | 4,965                            | 5,427                |
| <b>Total liabilities</b>   | <b>77,634</b>                    | <b>77,024</b>        |
| <b>Shareholders equity</b>   |                                  |                      |
| Common stock (1,750.0 shares authorized; 279.4 and 279.6 shares issued and outstanding)    | 22,724                           | 22,614               |
| Retained earnings  | 32,623                           | 32,196               |
| Accumulated other comprehensive loss   | (615)                            | (755)                |
| Treasury stock, at cost (491.9 and 489.5 shares)   | (31,120)                         | (30,834)             |
| <b>Total shareholders equity</b>   | <b>23,612</b>                    | <b>23,221</b>        |
| <b>Total liabilities and shareholders equity</b>   | <b>\$ 101,246</b>                | <b>\$ 100,245</b>    |

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



Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)**

(in millions)

| For the three months ended March 31,                                   | 2017             | 2016             |
|--|------------------|------------------|
| <b>Common stock</b>  |                  |                  |
| Balance, beginning of year   | \$ 22,614        | \$ 22,172        |
| Employee share-based compensation                                      | 68               | 47               |
| Compensation amortization under share-based plans and other changes    | 42               | 50               |
| Balance, end of period   | 22,724           | 22,269           |
| <b>Retained earnings</b>   |                  |                  |
| Balance, beginning of year   | 32,196           | 29,945           |
| Net income   | 617              | 691              |
| Dividends  | (190)            | (181)            |
| Other  |                  | (1)              |
| Balance, end of period   | 32,623           | 30,454           |
| <b>Accumulated other comprehensive income (loss), net of tax</b>       |                  |                  |
| Balance, beginning of year   | (755)            | (157)            |
| Other comprehensive income   | 140              | 571              |
| Balance, end of period   | (615)            | 414              |
| <b>Treasury stock (at cost)</b>  |                  |                  |
| Balance, beginning of year   | (30,834)         | (28,362)         |
| Treasury stock acquired share repurchase authorization                 | (225)            | (550)            |
| Net shares acquired related to employee share-based compensation plans | (61)             | (59)             |
| Balance, end of period   | (31,120)         | (28,971)         |
| <b>Total shareholders equity</b>                                       | <b>\$ 23,612</b> | <b>\$ 24,166</b> |
| <b>Common shares outstanding</b>                                       |                  |                  |
| Balance, beginning of year   | 279.6            | 295.9            |
| Treasury stock acquired share repurchase authorization                 | (1.9)            | (5.1)            |
| Net shares issued under employee share-based compensation plans        | 1.7              | 1.6              |
| Balance, end of period   | 279.4            | 292.4            |

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

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**

(in millions)

| <b>For the three months ended March 31,</b>                                       | <b>2017</b>  | <b>2016</b>  |
|---|--------------|--------------|
| <b>Cash flows from operating activities</b>                                       |              |              |
| Net income  | \$ 617       | \$ 691       |
| Adjustments to reconcile net income to net cash provided by operating activities: |              |              |
| Net realized investment (gains) losses  | (5)          | 9            |
| Depreciation and amortization   | 211          | 213          |
| Deferred federal income tax expense   | 151          | 105          |
| Amortization of deferred acquisition costs  | 1,003        | 971          |
| Equity in income from other investments   | (109)        | (17)         |
| Premiums receivable   | (286)        | (393)        |
| Reinsurance recoverables  | 94           | 126          |
| Deferred acquisition costs  | (1,065)      | (1,014)      |
| Claims and claim adjustment expense reserves                                      | 334          | 226          |
| Unearned premium reserves   | 475          | 328          |
| Other   | (645)        | (395)        |
| <b>Net cash provided by operating activities</b>                                  | <b>775</b>   | <b>850</b>   |
| <b>Cash flows from investing activities</b>                                       |              |              |
| Proceeds from maturities of fixed maturities                                      | 2,218        | 1,748        |
| Proceeds from sales of investments:   |              |              |
| Fixed maturities  | 188          | 421          |
| Equity securities   | 21           | 14           |
| Real estate investments   | 11           | 69           |
| Other investments   | 195          | 186          |
| Purchases of investments:   |              |              |
| Fixed maturities  | (3,056)      | (2,700)      |
| Equity securities   | (22)         | (12)         |
| Real estate investments   | (16)         | (7)          |
| Other investments   | (124)        | (162)        |
| Net sales of short-term securities  | 49           | 85           |
| Securities transactions in course of settlement                                   | 157          | 291          |
| Other   | (63)         | (79)         |
| <b>Net cash used in investing activities</b>                                      | <b>(442)</b> | <b>(146)</b> |
| <b>Cash flows from financing activities</b>                                       |              |              |
| Treasury stock acquired share repurchase authorization                            | (225)        | (550)        |
| Treasury stock acquired net employee share-based compensation                     | (61)         | (59)         |
| Dividends paid to shareholders  | (190)        | (180)        |
| Issuance of common stock employee share options                                   | 83           | 64           |
| <b>Net cash used in financing activities</b>                                      | <b>(393)</b> | <b>(725)</b> |
| Effect of exchange rate changes on cash   | 2            | 2            |
| <b>Net decrease in cash</b>   | <b>(58)</b>  | <b>(19)</b>  |

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|   |           |            |           |            |
|---|-----------|------------|-----------|------------|
| Cash at beginning of year                               |           | 307        |           | 380        |
| <b>Cash at end of period</b>                            | <b>\$</b> | <b>249</b> | <b>\$</b> | <b>361</b> |
| <b>Supplemental disclosure of cash flow information</b> |           |            |           |            |
| Income taxes paid                                       | \$        | 2          | \$        | 63         |
| Interest paid   | \$        | 43         | \$        | 42         |

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

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**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

**Basis of Presentation**

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company's management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the Company's 2016 Annual Report).

The preparation of the interim consolidated financial statements in conformity with GAAP requires management 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 interim consolidated financial statements and the reported amounts of revenues and claims and expenses during the reporting period. Actual results could differ from those estimates.

On March 13, 2017, the Company announced an agreement to acquire Simply Business from Aquiline Capital Partners LLC for total consideration of approximately \$490 million, which includes the repayment of debt and other obligations at the completion of the transaction. Simply Business is a leading digital provider of insurance policies to small businesses in the United Kingdom, offering products online on behalf of a broad panel of carriers. The Company expects to fund the transaction, subject to market conditions, through a combination of debt financing and internal resources. The transaction is expected to close in the third quarter of 2017, subject to regulatory approvals and other customary closing conditions.

**Adoption of Accounting Standards**

*Investments – Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting*

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In March 2016, the Financial Accounting Standards Board (FASB) issued updated guidance that eliminates the requirement to retroactively apply the equity method of accounting when an investment that was previously accounted for using another method of accounting becomes qualified to apply the equity method due to an increase in the level of ownership interest or degree of influence. If the investment was previously accounted for as an available-for-sale security, any related unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for the equity method is recognized through earnings. The updated guidance was effective for reporting periods beginning after December 15, 2016, and was applied prospectively. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

### *Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments*

In March 2016, the FASB issued updated guidance clarifying that when a call (put) option in a debt instrument can accelerate the repayment of principal on the debt instrument, a reporting entity does not need to assess whether the contingent event that triggers the ability to exercise the call (put) option is related to interest rates or credit risk in determining whether the option should be accounted for separately. The updated guidance was effective for reporting periods beginning after December 15, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

### *Compensation Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

In March 2017, the FASB issued updated guidance to improve the presentation of net periodic pension cost and net periodic post retirement cost (net benefit costs). Net benefit costs comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. The update requires that the

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**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**

**1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued**

employer service cost component be reported in the same lines as other employee compensation cost and that the other components (non-service costs) be presented separately from the service cost and outside of a subtotal of income from operations if one is presented. The update also allows only the service cost component to be eligible for capitalization in assets when applicable.

The updated guidance is effective for reporting periods beginning after December 15, 2017. The update is to be applied retrospectively with respect to the presentation of service cost and non-service cost and prospectively with respect to applying the service cost only eligible for capitalization in assets guidance. Early adoption is permitted as of the first interim period of an annual period if an entity issues interim financial statements.

The Company adopted the updated guidance effective January 1, 2017. See note 11 which has been expanded to disclose the amount of service cost and non-service cost components of net periodic benefit cost and the line items in the consolidated statement of income in which such amounts are reported. The updated guidance with respect to only service costs being eligible for capitalization in assets was not applicable.

For information regarding accounting standards that the Company adopted during the years presented, see the Adoption of Accounting Standards section of note 1 of notes to the consolidated financial statements in the Company's 2016 Annual Report.

**Accounting Standards Not Yet Adopted**

For information regarding accounting standards that the Company has not yet adopted, see the Other Accounting Standards Not Yet Adopted section of note 1 of notes to the consolidated financial statements in the Company's 2016 Annual Report.

**Nature of Operations**

For the periods presented in these financial statements, the Company was organized into three reportable business segments: Business and International Insurance; Bond & Specialty Insurance; and Personal Insurance. These segments reflected the manner in which the Company's businesses were managed and represented an aggregation of products and services based on type of customer, how the business was marketed



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and the manner in which risks were underwritten. For more information regarding the Company's business segment structure in effect for the periods presented in these financial statements, see the "Nature of Operations" section of note 1 of notes to the consolidated financial statements in the Company's 2016 Annual Report.

Effective April 1, 2017, the Company's results will be reported in the following three business segments: Business Insurance, Bond & Specialty Insurance and Personal Insurance, reflecting a change in the manner in which the Company's businesses will be managed. While the segmentation of the Company's domestic businesses will be unchanged, the Company's international businesses, which were previously reported in total within the Business and International Insurance segment, will now be disaggregated among these three newly aligned business segments. The newly aligned segments will be presented in the Company's financial statements beginning with the period ending June 30, 2017, and prior periods presented therein will be reclassified to conform to the new presentation.

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 2. SEGMENT INFORMATION

The following tables summarize the components of the Company's revenues, income and total assets by reportable business segments.

| (for the three months ended March 31, in millions) | Business and International Insurance | Bond & Specialty Insurance | Personal Insurance | Total Reportable Segments |
|--|--------------------------------------|----------------------------|--------------------|---------------------------|
| <b>2017</b>  |                                      |                            |                    |                           |
| Premiums   | \$ 3,620                             | \$ 514                     | \$ 2,049           | \$ 6,183                  |
| Net investment income                              | 470                                  | 52                         | 88                 | 610                       |
| Fee income   | 109                                  |                            | 4                  | 113                       |
| Other revenues                                     | 10                                   | 5                          | 15                 | 30                        |
| Total segment revenues (1)                         | \$ 4,209                             | \$ 571                     | \$ 2,156           | \$ 6,936                  |
| Segment income (1)                                 | \$ 468                               | \$ 129                     | \$ 79              | \$ 676                    |
| <b>2016</b>  |                                      |                            |                    |                           |
| Premiums   | \$ 3,599                             | \$ 508                     | \$ 1,874           | \$ 5,981                  |
| Net investment income                              | 415                                  | 52                         | 77                 | 544                       |
| Fee income   | 114                                  |                            | 3                  | 117                       |
| Other revenues                                     | 33                                   | 3                          | 14                 | 50                        |
| Total segment revenues (1)                         | \$ 4,161                             | \$ 563                     | \$ 1,968           | \$ 6,692                  |
| Segment income (1)                                 | \$ 476                               | \$ 144                     | \$ 139             | \$ 759                    |

(1) Segment revenues for reportable business segments exclude net realized investment gains (losses). Segment income for reportable business segments equals net income excluding the after-tax impact of net realized investment gains (losses).

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 2. SEGMENT INFORMATION, Continued

## Business Segment Reconciliations

| (in millions)                              | Three Months Ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2017                            | 2016     |
| <b>Revenue reconciliation</b>              |                                 |          |
| Earned premiums                            |                                 |          |
| Business and International Insurance:      |                                 |          |
| Domestic:                                  |                                 |          |
| Workers compensation                       | \$ 976                          | \$ 981   |
| Commercial automobile                      | 506                             | 491      |
| Commercial property                        | 435                             | 437      |
| General liability                          | 491                             | 482      |
| Commercial multi-peril                     | 774                             | 782      |
| Other                                      | 7                               | 5        |
| Total Domestic                             | 3,189                           | 3,178    |
| International                              | 431                             | 421      |
| Total Business and International Insurance | 3,620                           | 3,599    |
| Bond & Specialty Insurance:                |                                 |          |
| Fidelity and surety                        | 234                             | 230      |
| General liability                          | 235                             | 234      |
| Other                                      | 45                              | 44       |
| Total Bond & Specialty Insurance           | 514                             | 508      |
| Personal Insurance:                        |                                 |          |
| Automobile                                 | 1,094                           | 936      |
| Homeowners and Other                       | 955                             | 938      |
| Total Personal Insurance                   | 2,049                           | 1,874    |
| Total earned premiums                      | 6,183                           | 5,981    |
| Net investment income                      | 610                             | 544      |
| Fee income                                 | 113                             | 117      |
| Other revenues                             | 30                              | 50       |
| Total segment revenues                     | 6,936                           | 6,692    |
| Other revenues                             | 1                               | 3        |
| Net realized investment gains (losses)     | 5                               | (9)      |
| Total revenues                             | \$ 6,942                        | \$ 6,686 |
| <b>Income reconciliation, net of tax</b>   |                                 |          |
| Total segment income                       | \$ 676                          | \$ 759   |
| Interest Expense and Other (1)             | (62)                            | (61)     |

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|  |    |            |    |     |
|--|----|------------|----|-----|
| Core income                            |    | <b>614</b> |    | 698 |
| Net realized investment gains (losses) |    | <b>3</b>   |    | (7) |
| Net income                             |    | <b>617</b> |    | 691 |
|  | \$ |            | \$ |     |

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(1) The primary component of Interest Expense and Other for the three months ended March 31, 2017 and 2016 was after-tax interest expense of \$58 million and \$59 million, respectively.

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 2. SEGMENT INFORMATION, Continued

| (in millions)                        | March 31,<br>2017 | December 31,<br>2016 |
|--------------------------------------|-------------------|----------------------|
| <b>Asset reconciliation:</b>         |                   |                      |
| Business and International Insurance | \$ 80,397         | \$ 79,468            |
| Bond & Specialty Insurance           | 7,358             | 7,296                |
| Personal Insurance                   | 13,146            | 13,118               |
| Total segment assets                 | 100,901           | 99,882               |
| Other assets (1)                     | 345               | 363                  |
| Total consolidated assets            | \$ 101,246        | \$ 100,245           |

(1) The primary components of other assets at both March 31, 2017 and December 31, 2016 were other intangible assets and deferred taxes.

## 3. INVESTMENTS

**Fixed Maturities**

The amortized cost and fair value of investments in fixed maturities classified as available for sale were as follows:

| (at March 31, 2017, in millions)  | Amortized<br>Cost | Gains | Gross Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|-------|----------------------------|---------------|
| U.S. Treasury securities and obligations of U.S. government and government agencies and authorities | \$ 2,043          | \$ 10 | \$ 4                       | \$ 2,049      |
| Obligations of states, municipalities and political subdivisions:                                   |                   |       |                            |               |
| Local general obligation  | 14,082            | 303   | 159                        | 14,226        |
| Revenue   | 11,349            | 238   | 134                        | 11,453        |
| State general obligation  | 1,653             | 36    | 20                         | 1,669         |
| Pre-refunded  | 4,428             | 184   |                            | 4,612         |
| Total obligations of states, municipalities and political subdivisions                              | 31,512            | 761   | 313                        | 31,960        |

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|   |           |          |        |           |
|---|-----------|----------|--------|-----------|
| Debt securities issued by foreign governments   | 1,559     | 33       | 2      | 1,590     |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities | 1,690     | 97       | 7      | 1,780     |
| All other corporate bonds   | 23,378    | 528      | 111    | 23,795    |
| Redeemable preferred stock  | 87        | 7        |        | 94        |
| Total   | \$ 60,269 | \$ 1,436 | \$ 437 | \$ 61,268 |

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****3. INVESTMENTS, Continued**

| (at December 31, 2016, in millions)   | Amortized<br>Cost | Gains    | Gross Unrealized<br>Losses |    | Fair<br>Value |
|---|-------------------|----------|----------------------------|----|---------------|
| U.S. Treasury securities and obligations of U.S. government and government agencies and authorities | \$ 2,031          | \$ 9     | \$ 5                       | \$ | \$ 2,035      |
| Obligations of states, municipalities and political subdivisions:                                   |                   |          |                            |    |               |
| Local general obligation  | 13,955            | 271      | 182                        |    | 14,044        |
| Revenue   | 10,910            | 215      | 147                        |    | 10,978        |
| State general obligation  | 1,717             | 36       | 22                         |    | 1,731         |
| Pre-refunded  | 4,968             | 190      | 1                          |    | 5,157         |
| Total obligations of states, municipalities and political subdivisions                              | 31,550            | 712      | 352                        |    | 31,910        |
| Debt securities issued by foreign governments   | 1,631             | 34       | 3                          |    | 1,662         |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities         | 1,614             | 100      | 6                          |    | 1,708         |
| All other corporate bonds   | 22,737            | 508      | 138                        |    | 23,107        |
| Redeemable preferred stock  | 87                | 6        |                            |    | 93            |
| Total   | \$ 59,650         | \$ 1,369 | \$ 504                     | \$ | \$ 60,515     |

Pre-refunded bonds of \$4.61 billion and \$5.16 billion at March 31, 2017 and December 31, 2016, respectively, were bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities and obligations of U.S. government and government agencies and authorities. These trusts were created to fund the payment of principal and interest due under the bonds.

Proceeds from sales of fixed maturities classified as available for sale were \$188 million and \$421 million during the three months ended March 31, 2017 and 2016, respectively. Gross gains of \$7 million and \$23 million and gross losses of \$2 million and \$7 million were realized on those sales during the three months ended March 31, 2017 and 2016, respectively.

**Equity Securities**

The cost and fair value of investments in equity securities were as follows:

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| (at March 31, 2017, in millions) | Cost      |            | Gross Unrealized |            |           | Fair Value |           |            |
|----------------------------------|-----------|------------|------------------|------------|-----------|------------|-----------|------------|
|                                  |           |            | Gains            | Losses     |           |            |           |            |
| Public common stock              | \$        | 398        | \$               | 223        | \$        | 2          | \$        | 619        |
| Non-redeemable preferred stock   |           | 114        |                  | 23         |           | 5          |           | 132        |
| <b>Total</b>                     | <b>\$</b> | <b>512</b> | <b>\$</b>        | <b>246</b> | <b>\$</b> | <b>7</b>   | <b>\$</b> | <b>751</b> |

| (at December 31, 2016, in millions) | Cost      |            | Gross Unrealized |            |           | Fair Value |           |            |
|-------------------------------------|-----------|------------|------------------|------------|-----------|------------|-----------|------------|
|                                     |           |            | Gains            | Losses     |           |            |           |            |
| Public common stock                 | \$        | 390        | \$               | 216        | \$        | 3          | \$        | 603        |
| Non-redeemable preferred stock      |           | 114        |                  | 20         |           | 5          |           | 129        |
| <b>Total</b>                        | <b>\$</b> | <b>504</b> | <b>\$</b>        | <b>236</b> | <b>\$</b> | <b>8</b>   | <b>\$</b> | <b>732</b> |

Proceeds from sales of equity securities classified as available for sale were \$21 million and \$14 million during the three months ended March 31, 2017 and 2016, respectively. Gross gains of \$6 million and \$3 million and gross losses of less than \$1 million and \$2 million were realized on those sales during the three months ended March 31, 2017 and 2016, respectively.



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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 3. INVESTMENTS, Continued

## Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at March 31, 2017 and December 31, 2016, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in the tables are estimates that are prepared using the process described in note 4 herein and in note 4 of notes to the consolidated financial statements in the Company's 2016 Annual Report. The Company also relies upon estimates of several factors in its review and evaluation of individual investments, using the process described in note 1 of notes to the consolidated financial statements in the Company's 2016 Annual Report, in determining whether such investments are other-than-temporarily impaired.

| (at March 31, 2017, in millions)  | Less than 12 months |                         | 12 months or longer |                         | Total      |                         |
|---|---------------------|-------------------------|---------------------|-------------------------|------------|-------------------------|
|   | Fair Value          | Gross Unrealized Losses | Fair Value          | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| <b>Fixed maturities</b>   |                     |                         |                     |                         |            |                         |
| U.S. Treasury securities and obligations of U.S. government and government agencies and authorities | \$ 1,275            | \$ 4                    | \$                  | \$                      | \$ 1,275   | \$ 4                    |
| Obligations of states, municipalities and political subdivisions                                    | 9,185               | 313                     | 44                  |                         | 9,229      | 313                     |
| Debt securities issued by foreign governments   | 243                 | 2                       |                     |                         | 243        | 2                       |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities         | 529                 | 6                       | 40                  | 1                       | 569        | 7                       |
| All other corporate bonds   | 5,718               | 96                      | 343                 | 15                      | 6,061      | 111                     |
| Total fixed maturities  | 16,950              | 421                     | 427                 | 16                      | 17,377     | 437                     |
| <b>Equity securities</b>  |                     |                         |                     |                         |            |                         |
| Public common stock   | 35                  |                         | 16                  | 2                       | 51         | 2                       |
| Non-redeemable preferred stock  |                     |                         | 60                  | 5                       | 60         | 5                       |
| Total equity securities   | 35                  |                         | 76                  | 7                       | 111        | 7                       |
| Total   | \$ 16,985           | \$ 421                  | \$ 503              | \$ 23                   | \$ 17,488  | \$ 444                  |



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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 3. INVESTMENTS, Continued

| (at December 31, 2016, in millions)   | Less than 12 months |                         | 12 months or longer |                         | Total      |                         |
|---|---------------------|-------------------------|---------------------|-------------------------|------------|-------------------------|
|   | Fair Value          | Gross Unrealized Losses | Fair Value          | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| <b>Fixed maturities</b>   |                     |                         |                     |                         |            |                         |
| U.S. Treasury securities and obligations of U.S. government and government agencies and authorities | \$ 1,124            | \$ 5                    | \$                  | \$                      | \$ 1,124   | \$ 5                    |
| Obligations of states, municipalities and political subdivisions                                    | 9,781               | 352                     | 12                  |                         | 9,793      | 352                     |
| Debt securities issued by foreign governments   | 360                 | 3                       |                     |                         | 360        | 3                       |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities         | 528                 | 5                       | 43                  | 1                       | 571        | 6                       |
| All other corporate bonds   | 6,470               | 115                     | 437                 | 23                      | 6,907      | 138                     |
| Total fixed maturities  | 18,263              | 480                     | 492                 | 24                      | 18,755     | 504                     |
| <b>Equity securities</b>  |                     |                         |                     |                         |            |                         |
| Public common stock   | 45                  | 2                       | 10                  | 1                       | 55         | 3                       |
| Non-redeemable preferred stock  | 2                   |                         | 59                  | 5                       | 61         | 5                       |
| Total equity securities   | 47                  | 2                       | 69                  | 6                       | 116        | 8                       |
| Total   | \$ 18,310           | \$ 482                  | \$ 561              | \$ 30                   | \$ 18,871  | \$ 512                  |

Unrealized losses for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at March 31, 2017 totaled \$1 million, representing less than 1% of the combined fixed maturity and equity security portfolios on a pre-tax basis and less than 1% of shareholders' equity on an after-tax basis.

**Impairment Charges**

Impairment charges included in net realized investment gains (losses) in the consolidated statement of income were \$2 million and \$18 million for the three months ended March 31, 2017 and 2016, respectively.

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The cumulative amount of credit losses on fixed maturities held at March 31, 2017 and 2016, that were recognized in the consolidated statement of income from other-than-temporary impairments (OTTI) and for which a portion of the OTTI was recognized in other comprehensive income (loss) in the consolidated balance sheet was \$83 million and \$92 million, respectively. These credit losses represent less than 1% of the fixed maturity portfolio on a pre-tax basis and less than 1% of shareholders' equity on an after-tax basis at both dates. There were no significant changes in the credit component of OTTI during the three months ended March 31, 2017 and 2016 from that disclosed in note 3 of notes to the consolidated financial statements in the Company's 2016 Annual Report.

### **Derivative Financial Instruments**

From time to time, the Company enters into U.S. Treasury note futures contracts to modify the effective duration of specific assets within the investment portfolio. U.S. Treasury futures contracts require a daily mark-to-market and settlement with the broker. At both March 31, 2017 and December 31, 2016, the Company had \$400 million notional value of open U.S. Treasury futures contracts. Net realized investment losses related to U.S. Treasury futures contracts were \$3 million and \$19 million in the three months ended March 31, 2017 and 2016, respectively.

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**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**

**4. FAIR VALUE MEASUREMENTS**

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The level in the fair value hierarchy within which the fair value measurement is reported is based on the lowest level input that is significant to the measurement in its entirety. The three levels of the hierarchy are as follows:

- Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use.

*Valuation of Investments Reported at Fair Value in Financial Statements*

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both March 31, 2017 and December 31, 2016.

While the vast majority of the Company's fixed maturities are included in Level 2, the Company holds a number of municipal bonds and corporate bonds which are not valued by the pricing service and estimates the fair value of these bonds using an internal pricing matrix with

some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3. The fair value of the fixed maturities for which the Company used an internal pricing matrix was \$179 million and \$99 million at March 31, 2017 and December 31, 2016, respectively. Additionally, the Company holds a small amount of other fixed maturity investments that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker (primarily the market maker). The fair value of the fixed maturities for which the Company received a broker quote was \$83 million and \$85 million at March 31, 2017 and December 31, 2016, respectively. Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

For more information regarding the valuation of the Company's fixed maturities, equity securities and other investments, see note 4 of notes to the consolidated financial statements in the Company's 2016 Annual Report.

***Fair Value Hierarchy***

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis. An investment transferred between levels during a period is transferred at its fair value as of the beginning of that period.

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 4. FAIR VALUE MEASUREMENTS, Continued

| (at March 31, 2017, in millions)  | Total     | Level 1  | Level 2   | Level 3 |
|---|-----------|----------|-----------|---------|
| <b>Invested assets:</b>   |           |          |           |         |
| <b>Fixed maturities</b>   |           |          |           |         |
| U.S. Treasury securities and obligations of U.S. government and government agencies and authorities | \$ 2,049  | \$ 2,049 | \$        |         |
| Obligations of states, municipalities and political subdivisions                                    | 31,960    |          | 31,956    | 4       |
| Debt securities issued by foreign governments   | 1,590     |          | 1,590     |         |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities         | 1,780     |          | 1,692     | 88      |
| All other corporate bonds   | 23,795    | 5        | 23,620    | 170     |
| Redeemable preferred stock  | 94        | 3        | 91        |         |
| Total fixed maturities  | 61,268    | 2,057    | 58,949    | 262     |
| <b>Equity securities</b>  |           |          |           |         |
| Public common stock   | 619       | 619      |           |         |
| Non-redeemable preferred stock  | 132       | 67       | 65        |         |
| Total equity securities   | 751       | 686      | 65        |         |
| <b>Other investments</b>  | 53        | 17       |           | 36      |
| <b>Total</b>  | \$ 62,072 | \$ 2,760 | \$ 59,014 | \$ 298  |

| (at December 31, 2016, in millions)   | Total    | Level 1  | Level 2 | Level 3 |
|---|----------|----------|---------|---------|
| <b>Invested assets:</b>   |          |          |         |         |
| <b>Fixed maturities</b>   |          |          |         |         |
| U.S. Treasury securities and obligations of U.S. government and government agencies and authorities | \$ 2,035 | \$ 2,035 | \$      |         |
| Obligations of states, municipalities and political subdivisions                                    | 31,910   |          | 31,898  | 12      |
| Debt securities issued by foreign governments   | 1,662    |          | 1,662   |         |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities         | 1,708    |          | 1,704   | 4       |
| All other corporate bonds   | 23,107   |          | 22,939  | 168     |
| Redeemable preferred stock  | 93       | 3        | 90      |         |
| Total fixed maturities  | 60,515   | 2,038    | 58,293  | 184     |
| <b>Equity securities</b>  |          |          |         |         |

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|                                |           |          |           |        |
|--------------------------------|-----------|----------|-----------|--------|
| Public common stock            | 603       | 603      |           |        |
| Non-redeemable preferred stock | 129       | 51       | 78        |        |
| Total equity securities        | 732       | 654      | 78        |        |
| <b>Other investments</b>       | 53        | 17       |           | 36     |
| <b>Total</b>                   | \$ 61,300 | \$ 2,709 | \$ 58,371 | \$ 220 |

During the three months ended March 31, 2017 and the year ended December 31, 2016, the Company's transfers between Level 1 and Level 2 were not significant.

There was no significant activity in Level 3 of the hierarchy during the three months ended March 31, 2017 or the year ended December 31, 2016.



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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 4. FAIR VALUE MEASUREMENTS, Continued

## Financial Instruments Disclosed, But Not Carried, At Fair Value

The following tables present the carrying value and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value, and the level within the fair value hierarchy at which such assets and liabilities are categorized.

| (at March 31, 2017, in millions) | Carrying Value | Fair Value | Level 1 | Level 2  | Level 3 |
|----------------------------------|----------------|------------|---------|----------|---------|
| <b>Financial assets:</b>         |                |            |         |          |         |
| Short-term securities            | \$ 4,817       | \$ 4,817   | \$ 991  | \$ 3,791 | \$ 35   |
| <b>Financial liabilities:</b>    |                |            |         |          |         |
| Debt                             | \$ 6,338       | \$ 7,306   | \$      | \$ 7,306 | \$      |
| Commercial paper                 | \$ 100         | \$ 100     | \$      | \$ 100   | \$      |

| (at December 31, 2016, in millions) | Carrying Value | Fair Value | Level 1  | Level 2  | Level 3 |
|-------------------------------------|----------------|------------|----------|----------|---------|
| <b>Financial assets:</b>            |                |            |          |          |         |
| Short-term securities               | \$ 4,865       | \$ 4,865   | \$ 1,223 | \$ 3,607 | \$ 35   |
| <b>Financial liabilities:</b>       |                |            |          |          |         |
| Debt                                | \$ 6,337       | \$ 7,262   | \$       | \$ 7,262 | \$      |
| Commercial paper                    | \$ 100         | \$ 100     | \$       | \$ 100   | \$      |

The Company utilized a pricing service to estimate fair value for approximately 98% of short-term securities at both March 31, 2017 and December 31, 2016. For a description of the process and inputs used by the pricing service to estimate fair value, see the Fixed Maturities section in note 4 of notes to the consolidated financial statements in the Company's 2016 Annual Report.

The Company utilized a pricing service to estimate fair value for 100% of its debt, including commercial paper, at March 31, 2017 and December 31, 2016.

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the three months ended March 31, 2017 or year ended December 31, 2016.

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

**Goodwill**

The following table presents the carrying amount of the Company's goodwill by segment:

| <b>(in millions)</b>                     | <b>March 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|--|---------------------------|------------------------------|
| Business and International Insurance (1) | \$ 2,449                  | \$ 2,446                     |
| Bond & Specialty Insurance               | 497                       | 496                          |
| Personal Insurance                       | 612                       | 612                          |
| Other                                    | 26                        | 26                           |
| <b>Total</b>                             | <b>\$ 3,584</b>           | <b>\$ 3,580</b>              |

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(1) Includes goodwill associated with the Company's international business which is subject to the impact of changes in foreign currency exchange rates.

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The following tables present a summary of the Company's other intangible assets by major asset class:

| (at March 31, 2017, in millions) | Gross<br>Carrying<br>Amount |    | Accumulated<br>Amortization |    | Net |
|----------------------------------|-----------------------------|----|-----------------------------|----|-----|
| Subject to amortization (1)      | \$ 210                      | \$ | 161                         | \$ | 49  |
| Not subject to amortization      | 217                         |    |                             |    | 217 |
| Total                            | \$ 427                      | \$ | 161                         | \$ | 266 |

| (at December 31, 2016, in millions) | Gross<br>Carrying<br>Amount |    | Accumulated<br>Amortization |    | Net |
|-------------------------------------|-----------------------------|----|-----------------------------|----|-----|
| Subject to amortization (1)         | \$ 210                      | \$ | 159                         | \$ | 51  |
| Not subject to amortization         | 217                         |    |                             |    | 217 |
| Total                               | \$ 427                      | \$ | 159                         | \$ | 268 |

(1) Intangible assets subject to amortization are comprised of fair value adjustments on claims and claim adjustment expense reserves, reinsurance recoverables and other contract and customer-related intangibles. The time value of money and the risk adjustment (cost of capital) components of the intangible asset run off at different rates, and, as such, the amount recognized in income may be a net benefit in some periods and a net expense in other periods.

Amortization expense of intangible assets was \$3 million for each of the three months ended March 31, 2017 and 2016. Intangible asset amortization expense is estimated to be \$7 million for the remainder of 2017, \$8 million in 2018, \$6 million in 2019, \$5 million in 2020 and \$5 million in 2021.

**6. INSURANCE CLAIM RESERVES**

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Claims and claim adjustment expense reserves were as follows:

| (in millions)       | March 31,<br>2017 | December 31,<br>2016 |
|---------------------|-------------------|----------------------|
| Property-casualty   | \$ 48,301         | \$ 47,929            |
| Accident and health | 19                | 20                   |
| Total               | \$ 48,320         | \$ 47,949            |

The following table presents a reconciliation of beginning and ending property casualty reserve balances for claims and claim adjustment expenses for the three months ended March 31, 2017 and 2016:

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****6. INSURANCE CLAIM RESERVES, Continued**

|  |    |        |    |        |
|--|----|--------|----|--------|
| Claims and claim adjustment expense reserves at beginning of year                            | \$ | 47,929 | \$ | 48,272 |
| Less reinsurance recoverables on unpaid losses   |    | 7,981  |    | 8,449  |
| Net reserves at beginning of year  |    | 39,948 |    | 39,823 |
| Estimated claims and claim adjustment expenses for claims arising in the current year        |    | 4,126  |    | 3,843  |
| Estimated decrease in claims and claim adjustment expenses for claims arising in prior years |    | (50)   |    | (149)  |
| Total increases  |    | 4,076  |    | 3,694  |
| Claims and claim adjustment expense payments for claims arising in:                          |    |        |    |        |
| Current year   |    | 887    |    | 789    |
| Prior years  |    | 2,812  |    | 2,563  |
| Total payments   |    | 3,699  |    | 3,352  |
| Unrealized foreign exchange loss   |    | 34     |    | 102    |
| Net reserves at end of period  |    | 40,359 |    | 40,267 |
| Plus reinsurance recoverables on unpaid losses   |    | 7,942  |    | 8,351  |
| Claims and claim adjustment expense reserves at end of period                                | \$ | 48,301 | \$ | 48,618 |

Gross claims and claim adjustment expense reserves at March 31, 2017 increased by \$372 million from December 31, 2016, primarily reflecting the impacts of (i) higher volumes of insured exposures and loss cost trends for the current accident year and (ii) catastrophe losses incurred in the first quarter of 2017, partially offset by the impacts of (iii) payments related to operations in runoff and (iv) net favorable prior year reserve development.

Reinsurance recoverables on unpaid losses at March 31, 2017 decreased by \$39 million from December 31, 2016, primarily reflecting the impact of cash collections in the first three months of 2017.

**Prior Year Reserve Development**

The following disclosures regarding reserve development are on a net of reinsurance basis.

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For the three months ended March 31, 2017 and 2016, estimated claims and claim adjustment expenses incurred included \$50 million and \$149 million, respectively, of net favorable development for claims arising in prior years, including \$81 million and \$180 million, respectively, of net favorable prior year reserve development impacting the Company's results of operations and \$13 million of accretion of discount in each period.

*Business and International Insurance.* Net favorable prior year reserve development in the first quarter of 2017 totaled \$71 million, primarily driven by better than expected loss experience in the Company's domestic operations in (i) the workers' compensation product line for multiple accident years and (ii) the general liability product line for both primary and excess coverages for accident years 2009 and prior as well as accident year 2014, partially offset by (iii) net unfavorable prior year reserve development in the Company's international operations in Europe due to the U.K. Ministry of Justice's recent Ogden discount rate adjustment applied to lump sum bodily injury payouts. Net favorable prior year reserve development in the first quarter of 2016 totaled \$93 million, primarily driven by better than expected loss experience in the Company's domestic operations in (i) the workers' compensation product line for excess coverages for accident years 2006 and prior, (ii) the general liability product line, primarily related to excess coverages for accident years 2011 and 2013 and (iii) the commercial automobile product line for accident years 2010 and prior, as well as in the Company's international operations in Europe and Canada.

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 6. INSURANCE CLAIM RESERVES, Continued

*Bond & Specialty Insurance.* Net favorable prior year reserve development in the first quarter of 2017 totaled \$10 million. Net favorable prior year reserve development in first quarter 2016 totaled \$60 million, primarily driven by better than expected loss experience in the surety product line for accident years 2012 through 2014.

*Personal Insurance.* There was no net prior year reserve development in the first quarter of 2017. Net favorable prior year reserve development in first quarter 2016 totaled \$27 million, primarily driven by better than expected loss experience in (i) the Homeowners and Other product line for liability coverages for accident year 2014 and (ii) in the Automobile product line for accident year 2014.

## 7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in the Company's accumulated other comprehensive income (AOCI) for the three months ended March 31, 2017.

| (in millions)   | Changes in Net Unrealized Gains on<br>Investment Securities                         |  | Net Benefit Plan<br>Assets and<br>Obligations<br>Recognized in |          | Net Unrealized<br>Foreign Currency<br>Translation | Total Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|---|--|--|----------|---|--|
|   | Having No Credit<br>Losses Recognized in<br>the Consolidated<br>Statement of Income | Having Credit Losses<br>Recognized in the<br>Consolidated<br>Statement of Income | Shareholders   | Equity   |   |  |
| <b>Balance, December 31, 2016</b>                         | \$ 528  | \$ 202   | \$ (703)   | \$ (782) | \$ (755)  |  |
| Other comprehensive income (OCI) before reclassifications | 100   |  |  | 35       | 135   |  |
| Amounts reclassified from AOCI                            | (7)   |  | 12   |          | 5   |  |
| Net OCI, current period                                   | 93  |  | 12   | 35       | 140   |  |
| <b>Balance, March 31, 2017</b>                            | \$ 621  | \$ 202   | \$ (691)   | \$ (747) | \$ (615)  |  |





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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

**7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME, Continued**

The following table presents the pre-tax components of the Company's other comprehensive income and the related income tax expense for the three months ended March 31, 2017 and 2016.

| (for the three months ended March 31, in millions)                         | 2017          | 2016          |
|--|---------------|---------------|
| Changes in net unrealized gains on investment securities:                  |               |               |
| Having no credit losses recognized in the consolidated statement of income | \$ 144        | \$ 714        |
| Income tax expense   | 51            | 247           |
| Net of taxes   | 93            | 467           |
| Having credit losses recognized in the consolidated statement of income    |               |               |
| Income tax expense   |               | 5             |
| Net of taxes   |               | 2             |
| Net changes in benefit plan assets and obligations                         |               |               |
| Income tax expense   | 17            | 16            |
| Net of taxes   | 5             | 5             |
| Net changes in unrealized foreign currency translation                     |               |               |
| Income tax expense   | 41            | 103           |
| Net of taxes   | 6             | 13            |
| Total other comprehensive income   |               |               |
| Total income tax expense   | 202           | 838           |
| <b>Total other comprehensive income, net of taxes</b>                      | <b>\$ 140</b> | <b>\$ 571</b> |

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME, Continued

The following table presents the pre-tax and related income tax (expense) benefit components of the amounts reclassified from the Company's AOCI to the Company's consolidated statement of income for the three months ended March 31, 2017 and 2016.

| (for the three months ended March 31, in millions)                                 | 2017        | 2016         |
|--|-------------|--------------|
| Reclassification adjustments related to unrealized gains on investment securities: |             |              |
| Having no credit losses recognized in the consolidated statement of income (1)     | \$ (10)     | \$ (11)      |
| Income tax expense (2)   | (3)         | (4)          |
| Net of taxes   | (7)         | (7)          |
| Having credit losses recognized in the consolidated statement of income (1)        |             |              |
| Income tax benefit (2)   |             | 4            |
| Net of taxes   |             | 7            |
| Reclassification adjustment related to benefit plan assets and obligations:        |             |              |
| Claims and claim adjustment expenses (3)   | 7           | 6            |
| General and administrative expenses (3)  | 10          | 10           |
| Total  | 17          | 16           |
| Income tax benefit (2)   | 5           | 5            |
| Net of taxes   | 12          | 11           |
| Reclassification adjustment related to foreign currency translation (1)            |             |              |
| Income tax benefit (2)   |             |              |
| Net of taxes   |             |              |
| Total reclassifications  | 7           | 16           |
| Total income tax benefit   | 2           | 5            |
| <b>Total reclassifications, net of taxes</b>                                       | <b>\$ 5</b> | <b>\$ 11</b> |

(1) (Increases) decreases net realized investment gains (losses) on the consolidated statement of income.

(2) (Increases) decreases income tax expense on the consolidated statement of income.

(3) Increases (decreases) expenses on the consolidated statement of income.

**8. COMMON SHARE REPURCHASES**

During the three months ended March 31, 2017, the Company repurchased 1.9 million shares under its share repurchase authorization for a total cost of \$225 million. The average cost per share repurchased was \$120.86. On April 20, 2017, the Board of Directors approved a share repurchase authorization that added an additional \$5.0 billion of repurchase capacity to the \$709 million of capacity remaining at March 31, 2017. In addition, the Company acquired 0.5 million shares for a total cost of \$61 million during the three months ended March 31, 2017 that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock unit awards and performance share awards, and shares used by employees to cover the price of certain stock options that were exercised.

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 9. EARNINGS PER SHARE

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the periods presented:

| (in millions, except per share amounts)  | Three Months Ended<br>March 31, |         |
|--|---------------------------------|---------|
|  | 2017                            | 2016    |
| <b>Basic and Diluted</b>   |                                 |         |
| Net income, as reported  | \$ 617                          | \$ 691  |
| Participating share-based awards allocated income                                    | (4)                             | (5)     |
| Net income available to common shareholders basic and diluted                        | \$ 613                          | \$ 686  |
| <b>Common Shares</b>   |                                 |         |
| <b>Basic</b>   |                                 |         |
| Weighted average shares outstanding  | 279.7                           | 294.2   |
| <b>Diluted</b>   |                                 |         |
| Weighted average shares outstanding  | 279.7                           | 294.2   |
| Weighted average effects of dilutive securities stock options and performance shares | 2.7                             | 3.7     |
| Total  | 282.4                           | 297.9   |
| <b>Net Income per Common Share</b>   |                                 |         |
| Basic  | \$ 2.19                         | \$ 2.33 |
| Diluted  | \$ 2.17                         | \$ 2.30 |

## 10. SHARE-BASED INCENTIVE COMPENSATION

The following information relates to fully vested stock option awards at March 31, 2017:

| Stock Options | Number | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Contractual<br>Life<br>Remaining | Aggregate<br>Intrinsic<br>Value<br>(\$ in millions) |
|---------------|--------|--|---|---|
|---------------|--------|--|---|---|

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|                              |                  |           |              |                  |           |            |
|------------------------------|------------------|-----------|--------------|------------------|-----------|------------|
| Vested at end of period (1)  | <b>6,328,223</b> | <b>\$</b> | <b>86.11</b> | <b>6.5 years</b> | <b>\$</b> | <b>218</b> |
| Exercisable at end of period | <b>3,631,047</b> | <b>\$</b> | <b>68.37</b> | <b>4.8 years</b> | <b>\$</b> | <b>189</b> |

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(1) Represents awards for which the requisite service has been rendered, including those that are retirement eligible.

The total compensation cost for all share-based incentive compensation awards recognized in earnings was \$42 million and \$50 million for the three months ended March 31, 2017 and 2016, respectively. The related tax benefits recognized in earnings were \$14 million and \$17 million for the three months ended March 31, 2017 and 2016, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at March 31, 2017 was \$214 million, which is expected to be recognized over a weighted-average period of 2.2 years.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS**

The following table summarizes the components of net periodic benefit cost for the Company's pension and postretirement benefit plans recognized in the consolidated statement of income.

| (for the three months ended March 31, in millions) | Pension Plans |       | Postretirement Benefit Plans |      |
|--|---------------|-------|------------------------------|------|
|  | 2017          | 2016  | 2017                         | 2016 |
| <b>Net Periodic Benefit Cost:</b>                  |               |       |                              |      |
| Service cost                                       | \$ 30         | \$ 29 | \$                           | \$   |
| Non-service cost:                                  |               |       |                              |      |
| Interest cost on benefit obligation                | 31            | 30    | 2                            | 2    |
| Expected return on plan assets                     | (60)          | (57)  |                              |      |
| Amortization of unrecognized:                      |               |       |                              |      |
| Prior service benefit                              |               |       | (1)                          | (1)  |
| Net actuarial loss                                 | 18            | 17    |                              |      |
| Total non-service cost                             | (11)          | (10)  | 1                            | 1    |
| Net periodic benefit cost                          | \$ 19         | \$ 19 | \$ 1                         | \$ 1 |

The following table indicates the line items in which the respective service costs and non-service benefit costs are presented in the consolidated statement of income.

| (for the three months ended March 31, in millions) | Pension Plans |       | Postretirement Benefit Plans |      |
|--|---------------|-------|------------------------------|------|
|  | 2017          | 2016  | 2017                         | 2016 |
| <b>Service Cost:</b>                               |               |       |                              |      |
| Claims and claim adjustment expenses               | \$ 12         | \$ 12 | \$                           | \$   |
| General and administrative expenses                | 18            | 17    |                              |      |
| Total service cost                                 | 30            | 29    |                              |      |
| <b>Non-Service Cost:</b>                           |               |       |                              |      |
| Claims and claim adjustment expenses               | (4)           | (4)   |                              |      |
| General and administrative expenses                | (7)           | (6)   | 1                            | 1    |
| Total non-service cost                             | (11)          | (10)  | 1                            | 1    |
| Net periodic benefit cost                          | \$ 19         | \$ 19 | \$ 1                         | \$ 1 |

**12. CONTINGENCIES, COMMITMENTS AND GUARANTEES**

## **Contingencies**

The major pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or to which any of the Company's properties is subject are described below.

### **Asbestos and Environmental Claims and Litigation**

In the ordinary course of its insurance business, the Company has received and continues to receive claims for insurance arising under policies issued by the Company asserting alleged injuries and damages from asbestos- and environmental-related exposures that are the subject of related coverage litigation. The Company is defending asbestos- and environmental-related litigation vigorously and believes that it has meritorious defenses; however, the outcomes of these disputes are uncertain. In this regard, the Company employs dedicated specialists and aggressive resolution strategies to manage asbestos and environmental loss exposure, including settling litigation under appropriate circumstances. Currently, it is not possible to predict legal outcomes and their impact on the future development of claims and litigation relating to asbestos and

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**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**

**12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued**

environmental claims. Any such development will be affected by future court decisions and interpretations, as well as changes in applicable legislation. Because of these uncertainties, additional liabilities may arise for amounts in excess of the Company's current insurance reserves. In addition, the Company's estimate of ultimate claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company's results of operations in future periods.

**Other Proceedings Not Arising Under Insurance Contracts or Reinsurance Agreements**

The Company is involved in other lawsuits, including lawsuits alleging extra-contractual damages relating to insurance contracts or reinsurance agreements, that do not arise under insurance contracts or reinsurance agreements. The legal costs associated with such lawsuits are expensed in the period in which the costs are incurred. Based upon currently available information, the Company does not believe it is reasonably possible that any such lawsuit or related lawsuits would be material to the Company's results of operations or would have a material adverse effect on the Company's financial position or liquidity.

**Gain Contingency**

On August 17, 2010, in a reinsurance dispute in New York state court captioned *United States Fidelity & Guaranty Company v. American Re-Insurance Company, et al.*, the trial court granted summary judgment for United States Fidelity and Guaranty Company (USF&G), a subsidiary of the Company, and denied summary judgment for the reinsurers. The Court of Appeals largely affirmed the entry of summary judgment, but remanded two discrete issues for trial. Thereafter, the reinsurers filed a motion with the trial court to change venue, and the trial court denied the motion.

On November 7, 2016, the Company agreed to a settlement with one of the three defendants then remaining in this dispute. The Company received payment under the settlement in the fourth quarter of 2016 and, as a result, recognized a \$126 million pre-tax (\$82 million after-tax) gain in the fourth quarter, which was included in other revenues in the consolidated statement of income for the year ended December 31, 2016. The reinsurance recoverable balance related to this case was reduced from approximately \$238 million to approximately \$31 million in the Company's consolidated balance sheet.



On December 22, 2016, the Appellate Court, First Department affirmed the denial of the reinsurers' motion to change venue and a trial is set to proceed on May 1, 2017 with regard to the remaining two defendants—both of which are subsidiaries of the same company. At March 31, 2017, the claim related to the remaining defendants totaled \$71 million, comprising the \$31 million of reinsurance recoverable plus interest amounting to \$40 million as of that date. Interest will continue to accrue at an annual rate of 9% until the amounts owed by the remaining defendants are paid, though the reinsurers still party to the case contested that interest is owed in a brief filed on June 6, 2016. The interest that would be owed as part of any judgment ultimately entered in favor of the Company related to the remaining defendants is treated for accounting purposes as a gain contingency in accordance with FASB Topic 450, *Contingencies*, and accordingly has not been recognized in the Company's consolidated financial statements.

#### **Other Commitments and Guarantees**

##### **Commitments**

*Investment Commitments*—The Company has unfunded commitments to private equity limited partnerships and real estate partnerships in which it invests. These commitments totaled \$1.60 billion at both March 31, 2017 and December 31, 2016.

##### **Guarantees**

The maximum amount of the Company's contingent obligation for indemnifications related to the sale of businesses that are quantifiable was \$358 million at March 31, 2017, of which \$2 million was recognized on the balance sheet at that date.

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**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**

**12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued**

The maximum amount of the Company's obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was \$150 million at March 31, 2017, approximately \$75 million of which is indemnified by a third party. The maximum amount of the Company's obligation related to the guarantee of certain insurance policy obligations of a former insurance subsidiary was \$480 million at March 31, 2017, all of which is indemnified by a third party. For more information regarding Company guarantees, see note 16 of notes to the consolidated financial statements in the Company's 2016 Annual Report.

**13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

The following consolidating financial statements of the Company have been prepared pursuant to Rule 3-10 of Regulation S-X. These consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the consolidated financial statements. The Travelers Companies, Inc. (excluding its subsidiaries, TRV) has fully and unconditionally guaranteed certain debt obligations of Travelers Property Casualty Corp. (TPC), which totaled \$700 million at March 31, 2017.

Prior to the merger of TPC and The St. Paul Companies, Inc. in 2004, TPC fully and unconditionally guaranteed the payment of all principal, premiums, if any, and interest on certain debt obligations of its wholly-owned subsidiary, Travelers Insurance Group Holdings, Inc. (TIGHI). Concurrent with the merger, TRV fully and unconditionally assumed such guarantee obligations of TPC. TPC is deemed to have no assets or operations independent of TIGHI. Consolidating financial information for TIGHI has not been presented herein because such financial information would be substantially the same as the financial information provided for TPC.

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued

## CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2017

| (in millions)                              | TPC           | Other<br>Subsidiaries | TRV           | Eliminations    | Consolidated  |
|--|---------------|-----------------------|---------------|-----------------|---------------|
| <b>Revenues</b>                            |               |                       |               |                 |               |
| Premiums                                   | \$ 4,228      | \$ 1,955              | \$            | \$              | \$ 6,183      |
| Net investment income                      | 412           | 194                   | 4             |                 | 610           |
| Fee income                                 | 113           |                       |               |                 | 113           |
| Net realized investment gains (losses) (1) | (4)           | 9                     |               |                 | 5             |
| Other revenues                             | 24            | 9                     |               | (2)             | 31            |
| <b>Total revenues</b>                      | <b>4,773</b>  | <b>2,167</b>          | <b>4</b>      | <b>(2)</b>      | <b>6,942</b>  |
| <b>Claims and expenses</b>                 |               |                       |               |                 |               |
| Claims and claim adjustment expenses       | 2,752         | 1,342                 |               |                 | 4,094         |
| Amortization of deferred acquisition costs | 668           | 335                   |               |                 | 1,003         |
| General and administrative expenses        | 703           | 292                   | 3             | (2)             | 996           |
| Interest expense                           | 12            |                       | 77            |                 | 89            |
| <b>Total claims and expenses</b>           | <b>4,135</b>  | <b>1,969</b>          | <b>80</b>     | <b>(2)</b>      | <b>6,182</b>  |
| <b>Income (loss) before income taxes</b>   | <b>638</b>    | <b>198</b>            | <b>(76)</b>   |                 | <b>760</b>    |
| Income tax expense (benefit)               | 130           | 54                    | (41)          |                 | 143           |
| Net income of subsidiaries                 |               |                       | 652           | (652)           |               |
| <b>Net income</b>                          | <b>\$ 508</b> | <b>\$ 144</b>         | <b>\$ 617</b> | <b>\$ (652)</b> | <b>\$ 617</b> |

(1) Total other-than-temporary impairment (OTTI) for the three months ended March 31, 2017, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

| (in millions)     | TPC    | Other<br>Subsidiaries | TRV | Eliminations | Consolidated |
|-------------------|--------|-----------------------|-----|--------------|--------------|
| Total OTTI losses | \$     | \$ (1)                | \$  | \$           | \$ (1)       |
|                   | \$ (1) | \$ (1)                | \$  | \$           | \$ (2)       |

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OTTI losses recognized in net realized  
investment gains (losses)

|                              |    |   |    |    |    |    |   |
|------------------------------|----|---|----|----|----|----|---|
| OTTI gains recognized in OCI | \$ | 1 | \$ | \$ | \$ | \$ | 1 |
|------------------------------|----|---|----|----|----|----|---|

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued

## CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2016

| (in millions)                              | TPC           | Other<br>Subsidiaries | TRV           | Eliminations    | Consolidated  |
|--|---------------|-----------------------|---------------|-----------------|---------------|
| <b>Revenues</b>                            |               |                       |               |                 |               |
| Premiums                                   | \$ 4,085      | \$ 1,896              | \$            | \$              | \$ 5,981      |
| Net investment income                      | 376           | 166                   | 2             |                 | 544           |
| Fee income                                 | 117           |                       |               |                 | 117           |
| Net realized investment gains (losses) (1) | (16)          | 7                     |               |                 | (9)           |
| Other revenues                             | 48            | 16                    |               | (11)            | 53            |
| <b>Total revenues</b>                      | <b>4,610</b>  | <b>2,085</b>          | <b>2</b>      | <b>(11)</b>     | <b>6,686</b>  |
| <b>Claims and expenses</b>                 |               |                       |               |                 |               |
| Claims and claim adjustment expenses       | 2,520         | 1,192                 |               |                 | 3,712         |
| Amortization of deferred acquisition costs | 650           | 321                   |               |                 | 971           |
| General and administrative expenses        | 704           | 298                   | 4             | (11)            | 995           |
| Interest expense                           | 12            |                       | 79            |                 | 91            |
| <b>Total claims and expenses</b>           | <b>3,886</b>  | <b>1,811</b>          | <b>83</b>     | <b>(11)</b>     | <b>5,769</b>  |
| <b>Income (loss) before income taxes</b>   | <b>724</b>    | <b>274</b>            | <b>(81)</b>   |                 | <b>917</b>    |
| Income tax expense (benefit)               | 199           | 69                    | (42)          |                 | 226           |
| Net income of subsidiaries                 |               |                       | 730           | (730)           |               |
| <b>Net income</b>                          | <b>\$ 525</b> | <b>\$ 205</b>         | <b>\$ 691</b> | <b>\$ (730)</b> | <b>\$ 691</b> |

(1) Total other-than-temporary impairment (OTTI) for the three months ended March 31, 2016, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

| (in millions)     | TPC     | Other<br>Subsidiaries | TRV | Eliminations | Consolidated |
|-------------------|---------|-----------------------|-----|--------------|--------------|
| Total OTTI losses | \$ (14) | \$ (14)               | \$  | \$           | \$ (28)      |
|                   | \$ (9)  | \$ (9)                | \$  | \$           | \$ (18)      |

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OTTI losses recognized in net realized  
investment gains (losses)

|                               |    |     |    |     |    |    |      |
|-------------------------------|----|-----|----|-----|----|----|------|
| OTTI losses recognized in OCI | \$ | (5) | \$ | (5) | \$ | \$ | (10) |
|-------------------------------|----|-----|----|-----|----|----|------|

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued

## CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended March 31, 2017

| (in millions)  | TPC    | Other<br>Subsidiaries | TRV    | Eliminations | Consolidated |
|--|--------|-----------------------|--------|--------------|--------------|
| <b>Net income</b>  | \$ 508 | \$ 144                | \$ 617 | \$ (652)     | \$ 617       |
| <b>Other comprehensive income:</b>   |        |                       |        |              |              |
| Changes in net unrealized gains on investment securities:  |        |                       |        |              |              |
| Having no credit losses recognized in the consolidated statement of income                           | 93     | 44                    | 7      |              | 144          |
| Having credit losses recognized in the consolidated statement of income                              | 1      | (1)                   |        |              |              |
| Net changes in benefit plan assets and obligations   |        |                       | 17     |              | 17           |
| Net changes in unrealized foreign currency translation   | 25     | 16                    |        |              | 41           |
| <b>Other comprehensive income before income taxes and other comprehensive income of subsidiaries</b> | 119    | 59                    | 24     |              | 202          |
| Income tax expense   | 37     | 16                    | 9      |              | 62           |
| <b>Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries</b>   | 82     | 43                    | 15     |              | 140          |
| Other comprehensive income of subsidiaries   |        |                       | 125    | (125)        |              |
| <b>Other comprehensive income</b>  | 82     | 43                    | 140    | (125)        | 140          |
| <b>Comprehensive income</b>  | \$ 590 | \$ 187                | \$ 757 | \$ (777)     | \$ 757       |

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued

## CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended March 31, 2016

| (in millions)  | TPC           | Other<br>Subsidiaries | TRV             | Eliminations      | Consolidated    |
|--|---------------|-----------------------|-----------------|-------------------|-----------------|
| <b>Net income</b>  | \$ 525        | \$ 205                | \$ 691          | \$ (730)          | \$ 691          |
| <b>Other comprehensive income:</b>   |               |                       |                 |                   |                 |
| Changes in net unrealized gains on investment securities:  |               |                       |                 |                   |                 |
| Having no credit losses recognized in the consolidated statement of income                           | 485           | 228                   | 1               |                   | 714             |
| Having credit losses recognized in the consolidated statement of income                              | 2             | 3                     |                 |                   | 5               |
| Net changes in benefit plan assets and obligations   |               | 1                     | 15              |                   | 16              |
| Net changes in unrealized foreign currency translation   | 94            | 9                     |                 |                   | 103             |
| <b>Other comprehensive income before income taxes and other comprehensive income of subsidiaries</b> | <b>581</b>    | <b>241</b>            | <b>16</b>       |                   | <b>838</b>      |
| Income tax expense   | 181           | 79                    | 7               |                   | 267             |
| <b>Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries</b>   | <b>400</b>    | <b>162</b>            | <b>9</b>        |                   | <b>571</b>      |
| Other comprehensive income of subsidiaries   |               |                       | 562             | (562)             |                 |
| <b>Other comprehensive income</b>  | <b>400</b>    | <b>162</b>            | <b>571</b>      | <b>(562)</b>      | <b>571</b>      |
| <b>Comprehensive income</b>  | <b>\$ 925</b> | <b>\$ 367</b>         | <b>\$ 1,262</b> | <b>\$ (1,292)</b> | <b>\$ 1,262</b> |



Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued****CONSOLIDATING BALANCE SHEET (Unaudited)**

At March 31, 2017

| (in millions)   | TPC              | Other<br>Subsidiaries | TRV              | Eliminations       | Consolidated      |
|---|------------------|-----------------------|------------------|--------------------|-------------------|
| <b>Assets</b>   |                  |                       |                  |                    |                   |
| Fixed maturities, available for sale, at fair value (amortized cost \$60,269) | \$ 42,549        | \$ 18,669             | \$ 50            | \$                 | \$ 61,268         |
| Equity securities, available for sale, at fair value (cost \$512)             | 173              | 416                   | 162              |                    | 751               |
| Real estate investments   | 55               | 871                   |                  |                    | 926               |
| Short-term securities   | 2,202            | 559                   | 2,056            |                    | 4,817             |
| Other investments   | 2,605            | 889                   | 1                |                    | 3,495             |
| <b>Total investments</b>  | <b>47,584</b>    | <b>21,404</b>         | <b>2,269</b>     |                    | <b>71,257</b>     |
| Cash  | 91               | 156                   | 2                |                    | 249               |
| Investment income accrued   | 402              | 169                   | 4                |                    | 575               |
| Premiums receivable   | 4,730            | 2,282                 |                  |                    | 7,012             |
| Reinsurance recoverables  | 5,628            | 2,571                 |                  |                    | 8,199             |
| Ceded unearned premiums   | 668              | 77                    |                  |                    | 745               |
| Deferred acquisition costs  | 1,794            | 193                   |                  |                    | 1,987             |
| Deferred taxes  | 38               | 201                   | 22               |                    | 261               |
| Contractholder receivables  | 3,715            | 953                   |                  |                    | 4,668             |
| Goodwill  | 2,582            | 1,002                 |                  |                    | 3,584             |
| Other intangible assets   | 202              | 64                    |                  |                    | 266               |
| Investment in subsidiaries  |                  |                       | 27,118           | (27,118)           |                   |
| Other assets  | 2,094            | 311                   | 38               |                    | 2,443             |
| <b>Total assets</b>   | <b>\$ 69,528</b> | <b>\$ 29,383</b>      | <b>\$ 29,453</b> | <b>\$ (27,118)</b> | <b>\$ 101,246</b> |
| <b>Liabilities</b>  |                  |                       |                  |                    |                   |
| Claims and claim adjustment expense reserves                                  | \$ 32,421        | \$ 15,899             | \$               | \$                 | \$ 48,320         |
| Unearned premium reserves   | 8,918            | 3,896                 |                  |                    | 12,814            |
| Contractholder payables   | 3,715            | 953                   |                  |                    | 4,668             |
| Payables for reinsurance premiums   | 259              | 170                   |                  |                    | 429               |
| Debt  | 693              |                       | 5,745            |                    | 6,438             |
| Other liabilities   | 3,870            | 989                   | 106              |                    | 4,965             |
| <b>Total liabilities</b>  | <b>49,876</b>    | <b>21,907</b>         | <b>5,851</b>     |                    | <b>77,634</b>     |
| <b>Shareholders equity</b>  |                  | 390                   | 22,724           | (390)              | 22,724            |

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Common stock (1,750.0 shares authorized;  
279.4 shares issued and outstanding)

|  |                  |                  |                  |                    |                   |
|--|------------------|------------------|------------------|--------------------|-------------------|
| Additional paid-in capital                       | 11,634           | 6,499            |                  | (18,133)           |                   |
| Retained earnings                                | 7,908            | 678              | 32,613           | (8,576)            | 32,623            |
| Accumulated other comprehensive income<br>(loss) | 110              | (91)             | (615)            | (19)               | (615)             |
| Treasury stock, at cost (491.9 shares)           |                  |                  | (31,120)         |                    | (31,120)          |
| <b>Total shareholders equity</b>                 | <b>19,652</b>    | <b>7,476</b>     | <b>23,602</b>    | <b>(27,118)</b>    | <b>23,612</b>     |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 69,528</b> | <b>\$ 29,383</b> | <b>\$ 29,453</b> | <b>\$ (27,118)</b> | <b>\$ 101,246</b> |

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued

## CONSOLIDATING BALANCE SHEET (Unaudited)

At December 31, 2016

| (in millions)   | TPC              | Other<br>Subsidiaries | TRV              | Eliminations       | Consolidated      |
|---|------------------|-----------------------|------------------|--------------------|-------------------|
| <b>Assets</b>   |                  |                       |                  |                    |                   |
| Fixed maturities, available for sale, at fair value (amortized cost \$59,650) | \$ 42,014        | \$ 18,452             | \$ 49            | \$                 | \$ 60,515         |
| Equity securities, available for sale, at fair value (cost \$504)             | 169              | 408                   | 155              |                    | 732               |
| Real estate investments   | 56               | 872                   |                  |                    | 928               |
| Short-term securities   | 2,447            | 791                   | 1,627            |                    | 4,865             |
| Other investments   | 2,569            | 878                   | 1                |                    | 3,448             |
| <b>Total investments</b>  | <b>47,255</b>    | <b>21,401</b>         | <b>1,832</b>     |                    | <b>70,488</b>     |
| Cash  | 141              | 164                   | 2                |                    | 307               |
| Investment income accrued   | 441              | 183                   | 6                |                    | 630               |
| Premiums receivable   | 4,545            | 2,177                 |                  |                    | 6,722             |
| Reinsurance recoverables  | 5,664            | 2,623                 |                  |                    | 8,287             |
| Ceded unearned premiums   | 536              | 53                    |                  |                    | 589               |
| Deferred acquisition costs  | 1,741            | 182                   |                  |                    | 1,923             |
| Deferred taxes  | 216              | 224                   | 25               |                    | 465               |
| Contractholder receivables  | 3,656            | 953                   |                  |                    | 4,609             |
| Goodwill  | 2,578            | 1,002                 |                  |                    | 3,580             |
| Other intangible assets   | 202              | 66                    |                  |                    | 268               |
| Investment in subsidiaries  |                  |                       | 27,137           | (27,137)           |                   |
| Other assets  | 1,973            | 370                   | 34               |                    | 2,377             |
| <b>Total assets</b>   | <b>\$ 68,948</b> | <b>\$ 29,398</b>      | <b>\$ 29,036</b> | <b>\$ (27,137)</b> | <b>\$ 100,245</b> |
| <b>Liabilities</b>  |                  |                       |                  |                    |                   |
| Claims and claim adjustment expense reserves                                  | \$ 32,168        | \$ 15,781             | \$               | \$                 | \$ 47,949         |
| Unearned premium reserves   | 8,575            | 3,754                 |                  |                    | 12,329            |
| Contractholder payables   | 3,656            | 953                   |                  |                    | 4,609             |
| Payables for reinsurance premiums   | 156              | 117                   |                  |                    | 273               |
| Debt  | 693              |                       | 5,744            |                    | 6,437             |
| Other liabilities   | 4,106            | 1,239                 | 82               |                    | 5,427             |
| <b>Total liabilities</b>  | <b>49,354</b>    | <b>21,844</b>         | <b>5,826</b>     |                    | <b>77,024</b>     |
| <b>Shareholders equity</b>  |                  | 390                   | 22,614           | (390)              | 22,614            |

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Common stock (1,750.0 shares authorized;  
279.6 shares issued and outstanding)

|  |                  |                  |                  |                    |                   |
|--|------------------|------------------|------------------|--------------------|-------------------|
| Additional paid-in capital                       | 11,634           | 6,499            |                  | (18,133)           |                   |
| Retained earnings                                | 7,933            | 797              | 32,185           | (8,719)            | 32,196            |
| Accumulated other comprehensive income<br>(loss) | 27               | (132)            | (755)            | 105                | (755)             |
| Treasury stock, at cost (489.5 shares)           |                  |                  | (30,834)         |                    | (30,834)          |
| <b>Total shareholders equity</b>                 | <b>19,594</b>    | <b>7,554</b>     | <b>23,210</b>    | <b>(27,137)</b>    | <b>23,221</b>     |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 68,948</b> | <b>\$ 29,398</b> | <b>\$ 29,036</b> | <b>\$ (27,137)</b> | <b>\$ 100,245</b> |

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued

## CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the three months ended March 31, 2017

| (in millions)  | TPC          | Other<br>Subsidiaries | TRV          | Eliminations | Consolidated |
|--|--------------|-----------------------|--------------|--------------|--------------|
| <b>Cash flows from operating activities</b>  |              |                       |              |              |              |
| Net income   | \$ 508       | \$ 144                | \$ 617       | \$ (652)     | \$ 617       |
| Net adjustments to reconcile net income to net cash provided by (used in) operating activities | 112          | (16)                  | 205          | (143)        | 158          |
| <b>Net cash provided by operating activities</b>   | <b>620</b>   | <b>128</b>            | <b>822</b>   | <b>(795)</b> | <b>775</b>   |
| <b>Cash flows from investing activities</b>  |              |                       |              |              |              |
| Proceeds from maturities of fixed maturities   | 1,638        | 580                   |              |              | 2,218        |
| Proceeds from sales of investments:  |              |                       |              |              |              |
| Fixed maturities   | 88           | 100                   |              |              | 188          |
| Equity securities  | 2            | 19                    |              |              | 21           |
| Real estate investments  |              | 11                    |              |              | 11           |
| Other investments  | 144          | 51                    |              |              | 195          |
| Purchases of investments:  |              |                       |              |              |              |
| Fixed maturities   | (2,191)      | (864)                 | (1)          |              | (3,056)      |
| Equity securities  | (1)          | (20)                  | (1)          |              | (22)         |
| Real estate investments  |              | (16)                  |              |              | (16)         |
| Other investments  | (96)         | (28)                  |              |              | (124)        |
| Net sales (purchases) of short-term securities   | 245          | 233                   | (429)        |              | 49           |
| Securities transactions in course of settlement  | 102          | 53                    | 2            |              | 157          |
| Other  | (70)         | 7                     |              |              | (63)         |
| <b>Net cash provided by (used in) investing activities</b>                                     | <b>(139)</b> | <b>126</b>            | <b>(429)</b> |              | <b>(442)</b> |
| <b>Cash flows from financing activities</b>  |              |                       |              |              |              |
| Treasury stock acquired share repurchase authorization   |              |                       | (225)        |              | (225)        |
| Treasury stock acquired net employee share-based compensation                                  |              |                       | (61)         |              | (61)         |
| Dividends paid to shareholders   |              |                       | (190)        |              | (190)        |
| Issuance of common stock employee share options  |              |                       | 83           |              | 83           |
| Dividends paid to parent company   | (532)        | (263)                 |              | 795          |              |

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|   |       |        |       |     |        |
|---|-------|--------|-------|-----|--------|
| <b>Net cash used in financing activities</b>            | (532) | (263)  | (393) | 795 | (393)  |
| Effect of exchange rate changes on cash                 | 1     | 1      |       |     | 2      |
| Net decrease in cash                                    | (50)  | (8)    |       |     | (58)   |
| Cash at beginning of year                               | 141   | 164    | 2     |     | 307    |
| <b>Cash at end of period</b>                            | \$ 91 | \$ 156 | \$ 2  | \$  | \$ 249 |
| <b>Supplemental disclosure of cash flow information</b> |       |        |       |     |        |
| Income taxes paid                                       | \$ 1  | \$ 1   | \$    | \$  | 2      |
| Interest paid   | \$ 16 | \$     | \$ 27 | \$  | 43     |

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

## 13. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued

## CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the three months ended March 31, 2016

| (in millions)  | TPC          | Other<br>Subsidiaries | TRV         | Eliminations | Consolidated |
|--|--------------|-----------------------|-------------|--------------|--------------|
| <b>Cash flows from operating activities</b>  |              |                       |             |              |              |
| Net income   | \$ 525       | \$ 205                | \$ 691      | \$ (730)     | \$ 691       |
| Net adjustments to reconcile net income to net cash provided by (used in) operating activities | 151          | (55)                  | 115         | (52)         | 159          |
| <b>Net cash provided by operating activities</b>   | <b>676</b>   | <b>150</b>            | <b>806</b>  | <b>(782)</b> | <b>850</b>   |
| <b>Cash flows from investing activities</b>  |              |                       |             |              |              |
| Proceeds from maturities of fixed maturities   | 1,239        | 507                   | 2           |              | 1,748        |
| Proceeds from sales of investments:  |              |                       |             |              |              |
| Fixed maturities   | 237          | 183                   | 1           |              | 421          |
| Equity securities  | 4            | 10                    |             |              | 14           |
| Real estate investments  |              | 69                    |             |              | 69           |
| Other investments  | 122          | 64                    |             |              | 186          |
| Purchases of investments:  |              |                       |             |              |              |
| Fixed maturities   | (1,534)      | (1,162)               | (4)         |              | (2,700)      |
| Equity securities  | (1)          | (10)                  | (1)         |              | (12)         |
| Real estate investments  |              | (7)                   |             |              | (7)          |
| Other investments  | (123)        | (39)                  |             |              | (162)        |
| Net sales (purchases) of short-term securities   | (152)        | 317                   | (80)        |              | 85           |
| Securities transactions in course of settlement  | 159          | 131                   | 1           |              | 291          |
| Other  | (78)         | (1)                   |             |              | (79)         |
| <b>Net cash provided by (used in) investing activities</b>                                     | <b>(127)</b> | <b>62</b>             | <b>(81)</b> |              | <b>(146)</b> |
| <b>Cash flows from financing activities</b>  |              |                       |             |              |              |
| Treasury stock acquired share repurchase authorization   |              |                       | (550)       |              | (550)        |
| Treasury stock acquired net employee share-based compensation                                  |              |                       | (59)        |              | (59)         |
| Dividends paid to shareholders   |              |                       | (180)       |              | (180)        |
| Issuance of common stock employee share options  |              |                       | 64          |              | 64           |
| Dividends paid to parent company   | (565)        | (217)                 |             | 782          |              |

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|   |        |        |        |     |        |
|---|--------|--------|--------|-----|--------|
| <b>Net cash used in financing activities</b>            | (565)  | (217)  | (725)  | 782 | (725)  |
| Effect of exchange rate changes on cash                 | 2      |        |        |     | 2      |
| Net decrease in cash                                    | (14)   | (5)    |        |     | (19)   |
| Cash at beginning of year                               | 225    | 153    | 2      |     | 380    |
| <b>Cash at end of period</b>                            | \$ 211 | \$ 148 | \$ 2   | \$  | \$ 361 |
| <b>Supplemental disclosure of cash flow information</b> |        |        |        |     |        |
| Income taxes paid (received)                            | \$ 51  | \$ 17  | \$ (5) | \$  | \$ 63  |
| Interest paid   | \$ 16  | \$     | \$ 26  | \$  | \$ 42  |



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**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a discussion and analysis of the Company's financial condition and results of operations.

**FINANCIAL HIGHLIGHTS**

**2017 First Quarter Consolidated Results of Operations**

- Net income of \$617 million, or \$2.19 per share basic and \$2.17 per share diluted
- Net earned premiums of \$6.18 billion
- Catastrophe losses of \$347 million (\$226 million after-tax)
- Net favorable prior year reserve development of \$81 million (\$44 million after-tax)
- Combined ratio of 96.0%
- Net investment income of \$610 million (\$480 million after-tax)
- Operating cash flows of \$775 million

**2017 First Quarter Consolidated Financial Condition**

- Total investments of \$71.26 billion; fixed maturities and short-term securities comprise 93% of total investments
- Total assets of \$101.25 billion

- Total debt of \$6.44 billion, resulting in a debt-to-total capital ratio of 21.4% (22.0% excluding net unrealized investment gains, net of tax)
- Repurchased 2.4 million common shares for a total cost of \$286 million and paid \$190 million of dividends to shareholders
- Common stock dividend increased to \$0.72 per share, a 7.5% increase, on April 20, 2017
- Share repurchase authorization increased by \$5.0 billion on April 20, 2017
- Shareholders' equity of \$23.61 billion
- Net unrealized investment gains of \$1.26 billion (\$823 million after-tax)
- Book value per common share of \$84.51
- Holding company liquidity of \$2.11 billion

**Agreement to Acquire U.K. Based Simply Business**

On March 13, 2017, the Company announced an agreement to acquire Simply Business from Aquiline Capital Partners LLC for total consideration of approximately \$490 million, which includes the repayment of debt and other obligations at the completion of the transaction. Simply Business is a leading digital provider of insurance policies to small businesses in the United Kingdom, offering products online on behalf of a broad panel of carriers. The Company expects to fund the transaction, subject to market conditions, through a combination of debt financing and internal resources. The transaction is expected to close in the third quarter of 2017, subject to regulatory approvals and other customary closing conditions.

**Realignment of Reportable Business Segments**

Effective April 1, 2017, the Company's results will be reported in the following three business segments: Business Insurance, Bond & Specialty Insurance and Personal Insurance, reflecting a change in the manner in which the Company's businesses will be managed. The discussion of segment results herein is based on the Company's reportable business segment structure as it existed on March 31, 2017 prior to the realignment.

Table of Contents**CONSOLIDATED OVERVIEW****Consolidated Results of Operations**

| (for the three months ended March 31, in millions except ratio and per share amounts) | 2017          | 2016          |
|---|---------------|---------------|
| <b>Revenues</b>   |               |               |
| Premiums  | \$ 6,183      | \$ 5,981      |
| Net investment income   | 610           | 544           |
| Fee income  | 113           | 117           |
| Net realized investment gains (losses)  | 5             | (9)           |
| Other revenues  | 31            | 53            |
| <b>Total revenues</b>   | <b>6,942</b>  | <b>6,686</b>  |
| <b>Claims and expenses</b>  |               |               |
| Claims and claim adjustment expenses  | 4,094         | 3,712         |
| Amortization of deferred acquisition costs  | 1,003         | 971           |
| General and administrative expenses   | 996           | 995           |
| Interest expense  | 89            | 91            |
| <b>Total claims and expenses</b>  | <b>6,182</b>  | <b>5,769</b>  |
| <b>Income before income taxes</b>   | <b>760</b>    | <b>917</b>    |
| Income tax expense  | 143           | 226           |
| <b>Net income</b>   | <b>\$ 617</b> | <b>\$ 691</b> |
| <b>Net income per share</b>   |               |               |
| Basic   | \$ 2.19       | \$ 2.33       |
| Diluted   | \$ 2.17       | \$ 2.30       |
| <b>Combined ratio</b>   |               |               |
| Loss and loss adjustment expense ratio  | 65.3%         | 61.1%         |
| Underwriting expense ratio  | 30.7          | 31.2          |
| <b>Combined ratio</b>   | <b>96.0%</b>  | <b>92.3%</b>  |
| <b>Incremental impact of direct to consumer initiative on combined ratio</b>          | <b>0.3%</b>   | <b>0.3%</b>   |

The following discussions of the Company's net income and segment income are presented on an after-tax basis. Discussions of the components of net income and segment income are presented on a pre-tax basis, unless otherwise noted. Discussions of net income per common share are presented on a diluted basis.

*Overview*

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Diluted net income per share of \$2.17 in the first quarter of 2017 decreased by 6% from diluted net income per share of \$2.30 in the same period of 2016. Net income of \$617 million in the first quarter of 2017 decreased by 11% from net income of \$691 million in the same period of 2016. The lower rate of decrease in diluted net income per share reflected the impact of share repurchases in recent periods. The decrease in net income primarily reflected the pre-tax impacts of (i) lower net favorable prior year reserve development, (ii) lower underwriting margins excluding catastrophe losses and prior year reserve development ( underlying underwriting margins ), (iii) higher catastrophe losses and (iv) lower other revenues, partially offset by (v) higher net investment income. Net favorable prior year reserve development in the first quarters of 2017 and 2016 was \$81 million and \$180 million, respectively. Catastrophe losses in the first quarters of 2017 and 2016 were \$347 million and \$318 million, respectively. The lower underlying underwriting margins primarily resulted from the impacts of (i) normal quarterly variability in non-catastrophe weather-related losses and other loss activity and (ii) the timing of higher loss estimates in personal automobile bodily injury liability coverages that were consistent with the higher loss trends recognized in the last half of 2016. Partially offsetting the net pre-tax decrease in income was a related decrease in income tax expense. In addition, income tax expense in the first quarter of 2017 was reduced by \$39 million as a result of the resolution of prior year income tax matters.

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The Company has insurance operations in Canada, the United Kingdom, the Republic of Ireland and throughout other parts of the world as a corporate member of Lloyd's, as well as in Brazil and Colombia, primarily through joint ventures. Because these operations are conducted in local currencies other than the U.S. dollar, the Company is subject to changes in foreign currency exchange rates. For the three months ended March 31, 2017 and 2016, changes in foreign currency exchange rates had the impact of lowering the reported line items in the statement of income by insignificant amounts. The impact of these changes was not material to the Company's net income or Business and International Insurance's segment income for the periods reported.

**Revenues***Earned Premiums*

Earned premiums in the first quarter of 2017 were \$6.18 billion, \$202 million or 3% higher than in the same period of 2016. In Business and International Insurance and in Bond & Specialty Insurance, earned premiums in the first quarter of 2017 were 1% higher than in the same period of 2016. In Personal Insurance, earned premiums in the first quarter of 2017 were 9% higher than in the same period of 2016. Factors contributing to the changes in earned premiums are discussed in more detail in the segment discussions that follow.

*Net Investment Income*

The following table sets forth information regarding the Company's investments.

| <b>(for the three months ended March 31, dollars in millions)</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Average investments (1)   | \$ 70,865   | \$ 69,926   |
| Pre-tax net investment income                                     | 610         | 544         |
| After-tax net investment income                                   | 480         | 439         |
| Average pre-tax yield (2)   | 3.4%        | 3.1%        |
| Average after-tax yield (2)                                       | 2.7%        | 2.5%        |

(1) Excludes net unrealized investment gains and losses and reflects cash, receivables for investment sales, payables on investment purchases and accrued investment income.

(2) Excludes net realized and net unrealized investment gains and losses.

Net investment income in the first quarter of 2017 was \$610 million, \$66 million or 12% higher than in the same period of 2016. Net investment income from fixed maturity investments was \$477 million in the first quarter of 2017, a decrease of \$26 million from the same period in 2016. The decrease primarily resulted from lower long-term reinvestment rates available in the market, partially offset by the impact of a slightly higher level of fixed maturity investments. Net investment income generated by non-fixed maturity investments was \$131 million in the first quarter of 2017, \$87 million higher than in the same period of 2016, primarily due to higher returns from private equity limited partnerships.

*Fee Income*

The National Accounts market in Business and International Insurance is the primary source of the Company's fee-based business. The \$4 million decrease in fee income in the first quarter of 2017 compared with the same period of 2016 is discussed in the Business and International Insurance discussion that follows.

*Net Realized Investment Gains (Losses)*

The following table sets forth information regarding the Company's net realized investment gains (losses).

| <b>(for the three months ended March 31, in millions)</b> | <b>2017</b> | <b>2016</b>   |
|---|-------------|---------------|
| <b>Net Realized Investment Gains (Losses)</b>             |             |               |
| Other-than-temporary impairment losses                    | \$ (2)      | \$ (18)       |
| Other net realized investment gains                       | 7           | 9             |
| <b>Net realized investment gains (losses)</b>             | <b>\$ 5</b> | <b>\$ (9)</b> |

*Other Revenues*

Other revenues in the first quarters of 2017 and 2016 included installment premium charges. Other revenues in the first quarter of 2016 also included proceeds from the favorable settlement of a claims-related legal matter in Business and International Insurance.

Table of Contents**Claims and Expenses***Claims and Claim Adjustment Expenses*

Claims and claim adjustment expenses in the first quarter of 2017 were \$4.09 billion, \$382 million or 10% higher than in the same period of 2016, primarily reflecting the impacts of (i) higher volumes of insured exposures, (ii) lower net favorable prior year reserve development, (iii) loss cost trends, (iv) normal quarterly variability in non-catastrophe weather-related losses and other loss activity, (v) the timing of higher loss estimates in personal automobile bodily injury liability coverages that were consistent with the higher loss trends recognized in the last half of 2016 and (vi) higher catastrophe losses. Catastrophe losses in the first quarter of 2017 primarily resulted from wind and hail storms in several regions of the United States, as well as a winter storm in the eastern United States. Catastrophe losses in the first quarter of 2016 primarily resulted from wind and hail storms in Texas and several other regions of the United States, as well as winter storms in the eastern United States.

Factors contributing to net favorable prior year reserve development during the first quarters of 2017 and 2016 are discussed in more detail in note 6 of notes to the unaudited consolidated financial statements.

*Significant Catastrophe Losses*

The following table presents the amount of losses recorded by the Company for significant catastrophes that occurred in the three months ended March 31, 2017 and 2016, the amount of net unfavorable (favorable) prior year reserve development recognized in the three months ended March 31, 2017 and 2016 for significant catastrophes that occurred in 2016 and 2015, and the estimate of ultimate losses for those catastrophes at March 31, 2017 and December 31, 2016. For purposes of the table, a significant catastrophe is an event for which the Company estimates its ultimate losses will be \$100 million or more after reinsurance and before taxes. For the Company's definition of a catastrophe, refer to Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Overview in the Company's 2016 Annual Report.

| (in millions, pre-tax and net of reinsurance) | Losses Incurred/Unfavorable (Favorable) Prior<br>Year Reserve Development<br>For The Three Months Ended<br>March 31, |      | Estimated Ultimate Losses |                   |
|---|--|------|---------------------------|-------------------|
|   | 2017   | 2016 | March 31, 2017            | December 31, 2016 |
| <b>2015</b>                                   |  |      |                           |                   |
| PCS Serial Number:                            |  |      |                           |                   |
| 68 Winter storm                               | \$ 4   | \$   | \$ 133                    | \$ 129            |
| <b>2016</b>                                   |  |      |                           |                   |
| PCS Serial Number:                            |  |      |                           |                   |
| 21 Severe wind and hail storms                | 1  | 163  | 151                       | 150               |
| 25 Severe wind and hail storms                | 5  | n/a  | 173                       | 168               |
| <b>2017</b>                                   |  |      |                           |                   |
| PCS Serial Number:                            |  |      |                           |                   |

|    |                             |     |     |     |     |
|----|-----------------------------|-----|-----|-----|-----|
| 22 | Severe wind and hail storms | 115 | n/a | 115 | n/a |
|----|-----------------------------|-----|-----|-----|-----|

n/a: not applicable.

*Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the first quarter of 2017 was \$1.00 billion, \$32 million or 3% higher than in the same period of 2016. Amortization of deferred acquisition costs is discussed in more detail in the segment discussions that follow.

*General and Administrative Expenses*

General and administrative expenses in the first quarter of 2017 were \$996 million, comparable with the same period of 2016. General and administrative expenses are discussed in more detail in the segment discussions that follow.



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*Interest Expense*

Interest expense in the first quarters of 2017 and 2016 was \$89 million and \$91 million, respectively.

*Income Tax Expense*

Income tax expense in the first quarter of 2017 was \$143 million, \$83 million or 37% lower than in the same period of 2016, primarily reflecting the impact of the \$157 million decline in income before income taxes and the \$39 million reduction in income tax expense resulting from the resolution of prior year income tax matters.

The Company's effective tax rate was 19% and 25% in the first quarters of 2017 and 2016, respectively. The effective tax rates in both periods were lower than the statutory rate of 35% primarily due to the impact of tax-exempt investment income on the calculation of the Company's income tax provision. In addition, the effective tax rate in the first quarter of 2017 reflected the impact of the resolution of prior year income tax matters.

**Combined Ratio**

The combined ratio of 96.0% in the first quarter of 2017 was 3.7 points higher than the combined ratio of 92.3% in the same period of 2016.

The loss and loss adjustment expense ratio of 65.3% in the first quarter of 2017 was 4.2 points higher than the loss and loss adjustment expense ratio of 61.1% in the same period of 2016. Catastrophe losses accounted for 5.6 points and 5.3 points of the 2017 and 2016 first quarter loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in the first quarters of 2017 and 2016 provided 1.3 points and 3.0 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2017 first quarter loss and loss adjustment expense ratio excluding prior year reserve development and catastrophe losses ( underlying loss and loss adjustment expense ratio ) was 2.2 points higher than the 2016 ratio on the same basis, primarily reflecting the impacts of (i) normal quarterly variability in non-catastrophe weather-related losses and other loss activity and (ii) the timing of higher loss estimates in personal automobile bodily injury liability coverages that were consistent with the higher loss trends recognized in the last half of 2016.

The underwriting expense ratio of 30.7% in the first quarter of 2017 was 0.5 points lower than the underwriting expense ratio of 31.2% in the same period of 2016.

*Written Premiums*

Consolidated gross and net written premiums were as follows:

| (for the three months ended March 31, in millions) | Gross Written Premiums |                 |
|--|------------------------|-----------------|
|  | 2017                   | 2016            |
| Business and International Insurance               | \$ 4,457               | \$ 4,366        |
| Bond & Specialty Insurance                         | 549                    | 536             |
| Personal Insurance                                 | 2,012                  | 1,810           |
| <b>Total</b>                                       | <b>\$ 7,018</b>        | <b>\$ 6,712</b> |

| (for the three months ended March 31, in millions) | Net Written Premiums |                 |
|--|----------------------|-----------------|
|  | 2017                 | 2016            |
| Business and International Insurance               | \$ 4,027             | \$ 3,914        |
| Bond & Specialty Insurance                         | 504                  | 492             |
| Personal Insurance                                 | 1,964                | 1,760           |
| <b>Total</b>                                       | <b>\$ 6,495</b>      | <b>\$ 6,166</b> |

Gross and net written premiums in the first quarter of 2017 both increased by 5% over the same period of 2016. Factors contributing to the changes in gross and net written premiums are discussed in more detail in the segment discussions that follow.

Table of Contents**RESULTS OF OPERATIONS BY SEGMENT****Business and International Insurance**

Results of Business and International Insurance were as follows:

| (for the three months ended March 31, in millions except ratio amounts) | 2017            | 2016            |
|---|-----------------|-----------------|
| <b>Revenues</b>   |                 |                 |
| Earned premiums   | \$ 3,620        | \$ 3,599        |
| Net investment income   | 470             | 415             |
| Fee income  | 109             | 114             |
| Other revenues  | 10              | 33              |
| <b>Total revenues</b>   | <b>\$ 4,209</b> | <b>\$ 4,161</b> |
| <b>Total claims and expenses</b>  | <b>\$ 3,608</b> | <b>\$ 3,541</b> |
| <b>Segment income</b>   | <b>\$ 468</b>   | <b>\$ 476</b>   |
| Loss and loss adjustment expense ratio                                  | 63.9%           | 62.4%           |
| Underwriting expense ratio  | 32.4            | 32.4            |
| <b>Combined ratio</b>   | <b>96.3%</b>    | <b>94.8%</b>    |

*Overview*

Segment income in the first quarter of 2017 was \$468 million, \$8 million or 2% lower than segment income of \$476 million in the same period of 2016, primarily reflecting the pre-tax impacts of (i) lower underlying underwriting margins, (ii) lower other revenues and (iii) lower net favorable prior year reserve development, largely offset by (iv) higher net investment income and (v) lower catastrophe losses. Net favorable prior year reserve development in the first quarters of 2017 and 2016 was \$71 million and \$93 million, respectively. Catastrophe losses in the first quarters of 2017 and 2016 were \$134 million and \$148 million, respectively. The lower underlying underwriting margins primarily resulted from the impacts of (i) normal quarterly variability in non-catastrophe weather-related losses and other loss activity and (ii) loss cost trends that modestly exceed earned pricing. Partially offsetting the net pre-tax decrease in income was a decrease in income tax expense that primarily resulted from a \$15 million reduction in income tax expense due to the resolution of prior year income tax matters.

*Earned Premiums*

Earned premiums in the first quarter of 2017 were \$3.62 billion, \$21 million or 1% higher than in the same period of 2016.

*Net Investment Income*

Net investment income in the first quarter of 2017 was \$470 million, \$55 million or 13% higher than in the same period of 2016. Refer to the *Net Investment Income* section of the *Consolidated Results of Operations* discussion herein for a description of the factors contributing to the increase in the Company's consolidated net investment income in the first quarter of 2017 compared with the same period of 2016. In addition, refer to note 2 of notes to the consolidated financial statements in the Company's 2016 Annual Report for a discussion of the Company's net investment income allocation methodology.

*Fee Income*

National Accounts is the primary source of fee income. Fee income in the first quarter of 2017 was \$109 million, \$5 million or 4% lower than in the same period of 2016, primarily reflecting lower serviced premium volume due to the depopulation of workers' compensation residual market pools.

*Other Revenues*

Other revenues in the first quarters of 2017 and 2016 included installment premium charges. Other revenues in the first quarter of 2016 also included proceeds from the favorable settlement of a claims-related legal matter.

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**Claims and Expenses**

*Claims and Claim Adjustment Expenses*

Claims and claim adjustment expenses in the first quarter of 2017 were \$2.36 billion, \$65 million or 3% higher than in the same period of 2016, primarily reflecting the impacts of (i) loss cost trends, (ii) lower net favorable prior year reserve development and (iii) normal quarterly variability in non-catastrophe weather-related losses and other loss activity, partially offset by (iv) lower catastrophe losses. Factors contributing to net favorable prior year reserve development during the first quarters of 2017 and 2016 are discussed in more detail in note 6 of notes to the unaudited consolidated financial statements.

*Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the first quarter of 2017 was \$588 million, \$9 million or 2% higher than in the same period of 2016, generally consistent with the increase in earned premiums.

*General and Administrative Expenses*

General and administrative expenses in the first quarter of 2017 were \$656 million, \$7 million or 1% lower than in the same period of 2016.

*Income Tax Expense*

Income tax expense in the first quarter of 2017 was \$133 million, \$11 million or 8% lower than in the same period of 2016, primarily reflecting the impact of the \$15 million reduction in income tax expense resulting from the resolution of prior year income tax matters.

*Combined Ratio*

The combined ratio of 96.3% in the first quarter of 2017 was 1.5 points higher than the combined ratio of 94.8% in the same period of 2016.

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The loss and loss adjustment expense ratio of 63.9% in the first quarter of 2017 was 1.5 points higher than the loss and loss adjustment expense ratio of 62.4% in the same period of 2016. Net favorable prior year reserve development in the first quarters of 2017 and 2016 provided 1.9 points and 2.6 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in the first quarters of 2017 and 2016 accounted for 3.7 points and 4.1 points, respectively, of the loss and loss adjustment expense ratio. The 2017 first quarter underlying loss and loss adjustment expense ratio was 1.2 points higher than the 2016 ratio on the same basis, primarily reflecting the impacts of (i) normal quarterly variability in non-catastrophe weather-related losses and other loss activity and (ii) loss cost trends that modestly exceeded earned pricing.

The underwriting expense ratio of 32.4% in the first quarter of 2017 was comparable with the underwriting expense ratio in the same period of 2016.

### *Written Premiums*

Business and International Insurance's gross and net written premiums by market were as follows:

| (for the three months ended March 31, in millions) | Gross Written Premiums |                 |
|--|------------------------|-----------------|
|  | 2017                   | 2016            |
| <b>Domestic:</b>                                   |                        |                 |
| Select Accounts                                    | \$ 765                 | \$ 744          |
| Middle Market                                      | 2,032                  | 1,902           |
| National Accounts                                  | 471                    | 534             |
| First Party  | 436                    | 440             |
| Specialized Distribution                           | 256                    | 287             |
| <b>Total Domestic</b>                              | <b>3,960</b>           | <b>3,907</b>    |
| International                                      | 497                    | 459             |
| <b>Total Business and International Insurance</b>  | <b>\$ 4,457</b>        | <b>\$ 4,366</b> |

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| (for the three months ended March 31, in millions) | Net Written Premiums |                 |
|--|----------------------|-----------------|
|  | 2017                 | 2016            |
| Domestic:  |                      |                 |
| Select Accounts                                    | \$ 755               | \$ 724          |
| Middle Market                                      | 1,956                | 1,830           |
| National Accounts                                  | 288                  | 320             |
| First Party  | 352                  | 358             |
| Specialized Distribution                           | 255                  | 285             |
| <b>Total Domestic</b>                              | <b>3,606</b>         | <b>3,517</b>    |
| International                                      | 421                  | 397             |
| <b>Total Business and International Insurance</b>  | <b>\$ 4,027</b>      | <b>\$ 3,914</b> |

Gross and net written premiums in the first quarter of 2017 increased by 2% and 3%, respectively, over the same period of 2016. Business retention rates remained strong in the first quarter of 2017.

*Select Accounts.* Net written premiums of \$755 million in the first quarter of 2017 increased by 4% over the same period of 2016. Business retention rates remained strong in the first quarter of 2017. Renewal premium changes in the first quarter of 2017 remained positive but were lower than in the same period of 2016. New business premiums in the first quarter of 2017 increased over the same period of 2016.

*Middle Market.* Net written premiums of \$1.96 billion in the first quarter of 2017 increased by 7% over the same period of 2016. Business retention rates remained strong in the first quarter of 2017. Renewal premium changes in the first quarter of 2017 remained positive and were higher than in the same period of 2016. New business premiums in the first quarter of 2017 decreased from the same period of 2016.

*National Accounts.* Net written premiums of \$288 million in the first quarter of 2017 decreased by 10% from the same period of 2016. Business retention rates remained strong in the first quarter of 2017. Renewal premium changes in the first quarter of 2017 remained positive but were lower than in the same period of 2016. New business premiums in the first quarter of 2017 decreased from the same period of 2016.

*First Party.* Net written premiums of \$352 million in the first quarter of 2017 decreased by 2% from the same period of 2016. Business retention rates remained strong in the first quarter of 2017. Renewal premium changes in the first quarter of 2017 were slightly negative, consistent with the same period of 2016. New business premiums in the first quarter of 2017 decreased from the same period of 2016.

*Specialized Distribution.* Net written premiums of \$255 million in the first quarter of 2017 decreased by 11% from the same period of 2016. Business retention rates declined from the first quarter of 2017. Renewal premium changes in the first quarter of 2017 remained positive and were higher than in the same period of 2016. New business premiums in the first quarter of 2017 decreased from the same period of 2016.

*International.* Net written premiums of \$421 million in the first quarter of 2017 increased by 6% over the same period of 2016. Excluding the surety line of business, for which the following are not relevant measures, business retention rates remained strong in the first quarter of 2017. Renewal premium changes in the first quarter of 2017 were slightly positive, compared with slightly negative in the same period of 2016. New business premiums in the first quarter of 2017 increased over the same period of 2016.



Table of Contents**Bond & Specialty Insurance**

Results of Bond & Specialty Insurance were as follows:

| (for the three months ended March 31, in millions except ratio amounts) | 2017          | 2016          |
|---|---------------|---------------|
| <b>Revenues</b>   |               |               |
| Earned premiums   | \$ 514        | \$ 508        |
| Net investment income   | 52            | 52            |
| Other revenues  | 5             | 3             |
| <b>Total revenues</b>   | <b>\$ 571</b> | <b>\$ 563</b> |
| <b>Total claims and expenses</b>  | <b>\$ 410</b> | <b>\$ 354</b> |
| <b>Segment income</b>   | <b>\$ 129</b> | <b>\$ 144</b> |
| Loss and loss adjustment expense ratio                                  | 41.1%         | 31.9%         |
| Underwriting expense ratio  | 38.2          | 37.4          |
| <b>Combined ratio</b>   | <b>79.3%</b>  | <b>69.3%</b>  |

*Overview*

Segment income in the first quarter of 2017 was \$129 million, \$15 million or 10% lower than segment income of \$144 million in the same period of 2016, primarily reflecting the pre-tax impact of lower net favorable prior year reserve development. Net favorable prior year reserve development in the first quarters of 2017 and 2016 was \$10 million and \$60 million, respectively. Catastrophe losses in the first quarters of both 2017 and 2016 were \$1 million. Partially offsetting the net pre-tax decrease in income was a related decrease in income tax expense. In addition, income tax expense in the first quarter of 2017 was reduced by \$17 million as a result of the resolution of prior year income tax matters.

*Earned Premiums*

Earned premiums in the first quarter of 2017 were \$514 million, \$6 million or 1% higher than in the same period of 2016.

*Net Investment Income*

Net investment income in the first quarter of 2017 was \$52 million, comparable with the same period of 2016. Refer to the Net Investment Income section of Consolidated Results of Operations herein for a discussion of the increase in the Company's consolidated net investment income in the first quarter of 2017 as compared with the same period of 2016. In addition, refer to note 2 of notes to the consolidated financial statements in the Company's 2016 Annual Report for a discussion of the Company's net investment income allocation methodology.

## **Claims and Expenses**

### *Claims and Claim Adjustment Expenses*

Claims and claim adjustment expenses in the first quarter of 2017 were \$213 million, \$49 million or 30% higher than in the same period of 2016, primarily reflecting lower net favorable prior year reserve development. Factors contributing to net favorable prior year reserve development during the first quarters of 2017 and 2016 are discussed in more detail in note 6 of notes to the unaudited consolidated financial statements.

### *Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the first quarter of 2017 was \$97 million, \$1 million or 1% higher than in the same period of 2016.

### *General and Administrative Expenses*

General and administrative expenses in the first quarter of 2017 were \$100 million, \$6 million or 6% higher than in the same period of 2016, primarily reflecting higher employee and technology related expenses.

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*Income Tax Expense*

Income tax expense in the first quarter of 2017 was \$32 million, \$33 million or 51% lower than in the same period of 2016, primarily reflecting the impact of the \$17 million reduction in income tax expense resulting from the resolution of prior year income tax matters and the \$48 million decline in income before income taxes.

*Combined Ratio*

The combined ratio of 79.3% in the first quarter of 2017 was 10.0 points higher than the combined ratio of 69.3% in the same period of 2016 due to lower net favorable prior year reserve development.

The loss and loss adjustment expense ratio of 41.1% in the first quarter of 2017 was 9.2 points higher than the loss and loss adjustment expense ratio of 31.9% in the same period of 2016. Net favorable prior year reserve development in the first quarters of 2017 and 2016 provided 1.9 points and 11.9 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in each of the first quarters of 2017 and 2016 accounted for 0.1 points of the loss and loss adjustment expense ratio. The 2017 first quarter underlying loss and loss adjustment expense ratio was 0.8 points lower than the 2016 ratio on the same basis.

The underwriting expense ratio of 38.2% in the first quarter of 2017 was 0.8 points higher than the underwriting expense ratio of 37.4% in the same period of 2016.

*Written Premiums*

Bond & Specialty Insurance's gross and net written premiums by market were as follows:

| (for the three months ended March 31, in millions) | Gross Written Premiums |               |
|--|------------------------|---------------|
|  | 2017                   | 2016          |
| <b>Total Bond &amp; Specialty Insurance</b>        | <b>\$ 549</b>          | <b>\$ 536</b> |

| (for the three months ended March 31, in millions) | Net Written Premiums |               |
|--|----------------------|---------------|
|  | 2017                 | 2016          |
| <b>Total Bond &amp; Specialty Insurance</b>        | <b>\$ 504</b>        | <b>\$ 492</b> |

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Gross and net written premiums in the first quarter of 2017 were both 2% higher than in the same period of 2016. Excluding the surety line of business, for which the following are not relevant measures, business retention rates remained strong in the first quarter of 2017. Renewal premium changes in the first quarter of 2017 remained positive and were higher than in the same period of 2016. New business premiums in the first quarter of 2017 decreased slightly from the same period of 2016.

Table of Contents**Personal Insurance**

Results of Personal Insurance were as follows:

| (for the three months ended March 31, in millions except ratio amounts)      | 2017            | 2016            |
|--|-----------------|-----------------|
| <b>Revenues</b>  |                 |                 |
| Earned premiums  | \$ 2,049        | \$ 1,874        |
| Net investment income  | 88              | 77              |
| Fee income   | 4               | 3               |
| Other revenues   | 15              | 14              |
| <b>Total revenues</b>  | <b>\$ 2,156</b> | <b>\$ 1,968</b> |
| <b>Total claims and expenses</b>   | <b>\$ 2,067</b> | <b>\$ 1,775</b> |
| <b>Segment income</b>  | <b>\$ 79</b>    | <b>\$ 139</b>   |
| <b>Loss and loss adjustment expense ratio</b>                                |                 |                 |
|  | <b>74.1%</b>    | 66.7%           |
| <b>Underwriting expense ratio</b>  |                 |                 |
|  | <b>25.8</b>     | 27.0            |
| <b>Combined ratio</b>  | <b>99.9%</b>    | 93.7%           |
| <b>Incremental impact of direct to consumer initiative on combined ratio</b> | <b>0.9%</b>     | 0.9%            |

*Overview*

Segment income in the first quarter of 2017 was \$79 million, \$60 million or 43% lower than segment income of \$139 million in the same period of 2016, primarily reflecting the pre-tax impacts of (i) lower underlying underwriting margins, (ii) higher catastrophe losses and (iii) lower net favorable prior year reserve development, partially offset by (iv) higher net investment income. Catastrophe losses in the first quarters of 2017 and 2016 were \$212 million and \$169 million, respectively. There was no net prior year reserve development in the first quarter of 2017, compared with net favorable prior year reserve development of \$27 million in the same period of 2016. The lower underlying underwriting margins primarily resulted from the impacts of (i) the timing of higher loss estimates in personal automobile bodily injury liability coverages that were consistent with the higher loss trends recognized in the last half of 2016, and (ii) normal quarterly variability in non-catastrophe weather-related losses and other loss activity. Partially offsetting the net pre-tax decrease in income was a related decrease in income tax expense. In addition, income tax expense in the first quarter of 2017 was reduced by \$7 million as a result of the resolution of prior year income tax matters.

*Earned Premiums*

Earned premiums in the first quarter of 2017 were \$2.05 billion, \$175 million or 9% higher than in the same period of 2016, primarily reflecting the impact of an increase in net written premiums over the preceding twelve months.

*Net Investment Income*

Net investment income in the first quarter of 2017 was \$88 million, \$11 million or 14% higher than in the same period of 2016. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the increase in the Company's consolidated net investment income in the first quarter of 2017 compared with the same period of 2016. In addition, refer to note 2 of notes to the consolidated financial statements in the Company's 2016 Annual Report for a discussion of the Company's net investment income allocation methodology.

*Other Revenues*

Other revenues in the first quarters of 2017 and 2016 primarily consisted of installment premium charges.

**Claims and Expenses**

*Claims and Claim Adjustment Expenses*

Claims and claim adjustment expenses in the first quarter of 2017 were \$1.52 billion, \$268 million or 21% higher than in the same period of 2016, primarily reflecting the impacts of (i) higher volumes of insured exposures, (ii) higher catastrophe losses, (iii) the timing of higher loss estimates in personal automobile bodily injury liability coverages that were consistent with the higher loss trends

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recognized in the last half of 2016, (iv) lower net favorable prior year reserve development, (v) loss cost trends and (vi) normal quarterly variability in non-catastrophe weather-related losses and other loss activity. Factors contributing to net favorable prior year reserve development during the first quarters of 2016 are discussed in more detail in note 6 of notes to the unaudited consolidated financial statements.

*Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the first quarter of 2017 was \$318 million, \$22 million or 7% higher than in the same period of 2016, generally consistent with the increase in earned premiums.

*General and Administrative Expenses*

General and administrative expenses in the first quarter of 2017 were \$232 million, \$2 million or 1% higher than in the same period of 2016.

*Income Tax Expense*

Income tax expense in the first quarter of 2017 was \$10 million, \$44 million or 81% lower than in the same period of 2016, primarily reflecting the impact of the \$104 million decline in income before income taxes and the \$7 million reduction in income tax expense resulting from the resolution of prior year income tax matters.

*Combined Ratio*

The combined ratio of 99.9% in the first quarter of 2017 was 6.2 points higher than the combined ratio of 93.7% in the same period of 2016.

The loss and loss adjustment expense ratio of 74.1% in the first quarter of 2017 was 7.4 points higher than the loss and loss adjustment expense ratio of 66.7% in the same period of 2016. Catastrophe losses accounted for 10.4 points and 9.0 points of the loss and loss adjustment expense ratios in the first quarters of 2017 and 2016, respectively. Net favorable prior year reserve development in the first quarter of 2016 provided 1.4 points of benefit to the loss and loss adjustment expense ratio. The 2017 first quarter underlying loss and loss adjustment expense ratio was 4.6 points higher than the 2016 ratio on the same basis, primarily reflecting the impacts of (i) the timing of higher loss estimates in personal automobile bodily injury liability coverages that were consistent with the higher loss trends recognized in the last half of 2016, (ii) the tenure impact of higher levels of new business in recent years in the Automobile product line and (iii) normal quarterly variability in non-catastrophe weather-related losses and other loss activity.

The underwriting expense ratio of 25.8% in the first quarter of 2017 was 1.2 points lower than the underwriting expense ratio of 27.0% in the same period of 2016, primarily reflecting the impact of an increase in earned premiums.

*Agency Written Premiums*

Personal Insurance's gross and net written premiums by product line were as follows for its Agency business, which comprises business written through agents, brokers and other intermediaries and represents almost all of Personal Insurance's gross and net written premiums:

| (for the three months ended March 31, in millions) | Gross Written Premiums |                 |
|--|------------------------|-----------------|
|  | 2017                   | 2016            |
| Agency Automobile                                  | \$ 1,094               | \$ 939          |
| Agency Homeowners and Other                        | 835                    | 803             |
| <b>Total Agency Personal Insurance</b>             | <b>\$ 1,929</b>        | <b>\$ 1,742</b> |

| (for the three months ended March 31, in millions) | Net Written Premiums |                 |
|--|----------------------|-----------------|
|  | 2017                 | 2016            |
| Agency Automobile                                  | \$ 1,087             | \$ 932          |
| Agency Homeowners and Other                        | 794                  | 760             |
| <b>Total Agency Personal Insurance</b>             | <b>\$ 1,881</b>      | <b>\$ 1,692</b> |



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Gross and net agency written premiums in the first quarter of 2017 were both 11% higher than in the same period of 2016.

In the Agency Automobile line of business, net written premiums in the first quarter of 2017 were 17% higher than in the same period of 2016. Business retention rates remained strong in the first quarter of 2017. Renewal premium changes in the first quarter of 2017 remained positive and were higher than in the same period of 2016. New business premiums in the first quarter of 2017 increased over the same period of 2016.

In the Agency Homeowners and Other line of business, net written premiums in the first quarter of 2017 were 4% higher than in the same period of 2016. Business retention rates remained strong in the first quarter of 2017. Renewal premium changes in the first quarter of 2017 remained positive and were comparable with the same period of 2016. New business premiums in the first quarter of 2017 increased over the same period of 2016.

For its Agency business, Personal Insurance had approximately 6.7 million and 6.3 million active policies at March 31, 2017 and 2016, respectively.

*Direct to Consumer Written Premiums*

In the direct to consumer business, net written premiums in the first quarter of 2017 were \$83 million, \$15 million or 22% higher than in the same period of 2016. In the first quarter of 2017, automobile net written premiums increased by \$13 million, or 25% and homeowners and other net written premiums increased by \$2 million, or 12% over the same period of 2016. The direct to consumer business had 303,000 and 254,000 active policies at March 31, 2017 and 2016, respectively.

**Interest Expense and Other**

| (for the three months ended March 31, in millions) | 2017    | 2016    |
|--|---------|---------|
| Income (loss)                                      | \$ (62) | \$ (61) |

The income (loss) for Interest Expense and Other in the first quarters of 2017 and 2016 was \$(62) million and \$(61) million, respectively. After-tax interest expense was \$58 million and \$59 million in the first quarters of 2017 and 2016, respectively.

**ASBESTOS CLAIMS AND LITIGATION**

The Company believes that the property and casualty insurance industry has suffered from court decisions and other trends that have expanded insurance coverage for asbestos claims far beyond the original intent of insurers and policyholders. The Company has received and continues to receive a significant number of asbestos claims from the Company's policyholders (which includes others seeking coverage under a policy). Factors underlying these claim filings include continued intensive advertising by lawyers seeking asbestos claimants and the continued focus by plaintiffs on defendants who were not traditionally primary targets of asbestos litigation. The focus on these defendants is primarily the result of the number of traditional asbestos defendants who have sought bankruptcy protection in previous years. In addition to contributing to the overall number of claims, bankruptcy proceedings may increase the volatility of asbestos-related losses by initially delaying the reporting of claims and later by significantly accelerating and increasing loss payments by insurers, including the Company. The bankruptcy of many traditional defendants has also caused increased settlement demands against those policyholders who are not in bankruptcy but remain in the tort system. Currently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket. Prioritizing claims involving credible evidence of injuries, along with the focus on defendants who were not traditionally primary targets of asbestos litigation, contributes to the claims and claim adjustment expense payment patterns experienced by the Company. The Company's asbestos-related claims and claim adjustment expense experience also has been impacted by the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers.

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The Company continues to be involved in coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage. In these instances, policyholders also may assert that each individual bodily injury claim should be treated as a separate occurrence under the policy. It is difficult to predict whether these policyholders will be successful on both issues. To the extent both issues are resolved in a policyholder's favor and other Company defenses are not successful, the Company's coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per-occurrence limits and the number of asbestos bodily injury claims against the policyholders. Although the Company has seen a reduction in the overall risk associated with these lawsuits, it remains difficult to predict the ultimate cost of these claims.

Many coverage disputes with policyholders are only resolved through settlement agreements. Because many policyholders make exaggerated demands, it is difficult to predict the outcome of settlement negotiations. Settlements involving bankrupt policyholders may include extensive releases which are favorable to the Company but which could result in settlements for larger amounts than originally anticipated. There also may be instances where a court may not approve a proposed settlement, which may result in additional litigation and potentially less beneficial outcomes for the Company. As in the past, the Company will continue to pursue settlement opportunities.

In addition to claims against policyholders, proceedings have been launched directly against insurers, including the Company, by individuals challenging insurers' conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos-related bodily injuries. It is possible that the filing of other direct actions against insurers, including the Company, could be made in the future. It is difficult to predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability. The Company believes it has meritorious defenses to these claims and has received favorable rulings in certain jurisdictions.

The Company's quarterly asbestos reserve reviews include an analysis of exposure and claim payment patterns by policyholder category, as well as recent settlements, policyholder bankruptcies, judicial rulings and legislative actions. The Company also analyzes developing payment patterns among policyholders in the Home Office and Field Office, and Assumed Reinsurance and Other categories as well as projected reinsurance billings and recoveries. In addition, the Company reviews its historical gross and net loss and expense paid experience, year-by-year, to assess any emerging trends, fluctuations, or characteristics suggested by the aggregate paid activity. Conventional actuarial methods are not utilized to establish asbestos reserves nor have the Company's evaluations resulted in any way of determining a meaningful average asbestos defense or indemnity payment. Over the past decade, the property and casualty insurance industry, including the Company, has experienced net unfavorable prior year reserve development with regard to asbestos reserves, but the Company believes that over that period there has been a reduction in the volatility associated with the Company's overall asbestos exposure as the overall asbestos environment has evolved from one dominated by exposure to significant litigation risks, particularly coverage disputes relating to policyholders in bankruptcy who were asserting that their claims were not subject to the aggregate limits contained in their policies, to an environment primarily driven by a frequency of litigation related to individuals with mesothelioma. The Company's overall view of the current underlying asbestos environment is essentially unchanged from recent periods and there remains a high degree of uncertainty with respect to future exposure to asbestos claims.

Because each policyholder presents different liability and coverage issues, the Company generally reviews the exposure presented by each policyholder at least annually. Among the factors which the Company may consider in the course of this review are: available insurance coverage, including the role of any umbrella or excess insurance the Company has issued to the policyholder; limits and deductibles; an analysis of the policyholder's potential liability; the jurisdictions involved; past and anticipated future claim activity and loss development on pending claims; past settlement values of similar claims; allocated claim adjustment expense; potential role of other insurance; the role, if any, of non-asbestos claims or potential non-asbestos claims in any resolution process; and applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the

available coverage, if any, for that claim.

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Net asbestos paid loss and loss expenses in the first quarter of 2017 were \$58 million, compared with \$37 million in the same period of 2016. Net asbestos reserves were \$1.27 billion at March 31, 2017, compared with \$1.77 billion at March 31, 2016.

The following table displays activity for asbestos losses and loss expenses and reserves:

| (at and for the three months ended March 31, in millions) | 2017     | 2016     |
|---|----------|----------|
| Beginning reserves:                                       |          |          |
| Gross   | \$ 1,512 | \$ 1,989 |
| Ceded   | (186)    | (179)    |
| Net   | 1,326    | 1,810    |
| Incurred losses and loss expenses:                        |          |          |
| Gross   |          |          |
| Ceded   |          |          |
| Net   |          |          |
| Paid loss and loss expenses:                              |          |          |
| Gross   | 76       | 52       |
| Ceded   | (18)     | (15)     |
| Net   | 58       | 37       |
| Foreign exchange and other:                               |          |          |
| Gross   |          |          |
| Ceded   |          |          |
| Net   |          |          |
| Ending reserves:  |          |          |
| Gross   | 1,436    | 1,937    |
| Ceded   | (168)    | (164)    |
| Net   | \$ 1,268 | \$ 1,773 |

See Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.

**ENVIRONMENTAL CLAIMS AND LITIGATION**

The Company has received and continues to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. Mostly, these claims are due to various legislative as well as regulatory efforts aimed at environmental remediation. For instance, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), enacted in 1980 and later modified, enables private parties as well as federal and state governments to take action with respect to releases and threatened releases of hazardous substances. This federal statute permits the recovery of response costs from some liable parties and may require liable parties to undertake their own remedial action. Liability under CERCLA may be joint and several with other responsible parties.

The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to environmental claims. The Company believes that some court decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions often pertain to insurance policies that were issued by the Company prior to the mid-1980s. These decisions continue to be inconsistent and vary from jurisdiction to jurisdiction. Environmental claims, when submitted, rarely indicate the monetary amount being sought by the claimant from the policyholder, and the Company does not keep track of the monetary amount being sought in those few claims which indicate a monetary amount.

The resolution of environmental exposures by the Company generally occurs through settlements with policyholders as opposed to claimants. Generally, the Company strives to extinguish any obligations it may have under any policy issued to

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the policyholder for past, present and future environmental liabilities and extinguish any pending coverage litigation dispute with the policyholder. This form of settlement is commonly referred to as a buy-back of policies for future environmental liability. In addition, many of the agreements have also extinguished any insurance obligation which the Company may have for other claims, including but not limited to asbestos and other cumulative injury claims. The Company and its policyholders may also agree to settlements which extinguish any liability arising from known specified sites or claims. Where appropriate, these agreements also include indemnities and hold harmless provisions to protect the Company. The Company's general purpose in executing these agreements is to reduce the Company's potential environmental exposure and eliminate the risks presented by coverage litigation with the policyholder and related costs.

In establishing environmental reserves, the Company evaluates the exposure presented by each policyholder and the anticipated cost of resolution, if any. In the course of this analysis, the Company generally considers the probable liability, available coverage and relevant judicial interpretations. In addition, the Company considers the many variables presented, such as: the nature of the alleged activities of the policyholder at each site; the number of sites; the total number of potentially responsible parties at each site; the nature of the alleged environmental harm and the corresponding remedy at each site; the nature of government enforcement activities at each site; the ownership and general use of each site; the overall nature of the insurance relationship between the Company and the policyholder, including the role of any umbrella or excess insurance the Company has issued to the policyholder; the involvement of other insurers; the potential for other available coverage, including the number of years of coverage; the role, if any, of non-environmental claims or potential non-environmental claims in any resolution process; and the applicable law in each jurisdiction. The evaluation of the exposure presented by a policyholder can change as information concerning that policyholder and the many variables presented is developed. Conventional actuarial methods are not used to estimate these reserves.

In its review of environmental reserves, the Company considers: past settlement payments; changing judicial and legislative trends; its reserves for the costs of litigating environmental coverage matters; the potential for policyholders with smaller exposures to be named in new clean-up actions for both on- and off-site waste disposal activities; the potential for adverse development; the potential for additional new claims beyond previous expectations; and the potential higher costs for new settlements.

The duration of the Company's investigation and review of these claims and the extent of time necessary to determine an appropriate estimate, if any, of the value of the claim to the Company vary significantly and are dependent upon a number of factors. These factors include, but are not limited to, the cooperation of the policyholder in providing claim information, the pace of underlying litigation or claim processes, the pace of coverage litigation between the policyholder and the Company and the willingness of the policyholder and the Company to negotiate, if appropriate, a resolution of any dispute pertaining to these claims. Because these factors vary from claim-to-claim and policyholder-by-policyholder, the Company cannot provide a meaningful average of the duration of an environmental claim. However, based upon the Company's experience in resolving these claims, the duration may vary from months to several years.

The Company continues to receive notices from policyholders tendering claims for the first time, frequently under policies issued prior to the mid-1980s. These policyholders continue to present smaller exposures, have fewer sites and are lower tier defendants. Further, in many instances, clean-up costs have been reduced because regulatory agencies are willing to accept risk-based site analyses and more efficient clean-up technologies. Over the past several years, the Company has experienced generally favorable trends in the number of new policyholders tendering environmental claims for the first time and in the number of pending declaratory judgment actions relating to environmental matters. However, the degree to which those favorable trends have continued has been less than anticipated. In addition, reserve development on existing environmental claims has been greater than anticipated, driven by claims and legal developments in a limited number of jurisdictions.

Net environmental paid loss and loss expenses in the first quarters of 2017 and 2016 were \$16 million and \$10 million, respectively. At March 31, 2017, approximately 92% of the net environmental reserve (approximately \$337 million) was carried in a bulk reserve and included unresolved environmental claims, incurred but not reported environmental claims and the anticipated cost of coverage litigation disputes relating to these claims. The bulk reserve the Company carries is established and adjusted based upon the aggregate volume of in-process environmental

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claims and the Company's experience in resolving those claims. The balance, approximately 8% of the net environmental reserve (approximately \$29 million), consists of case reserves.

The following table displays activity for environmental losses and loss expenses and reserves:



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| (at and for the three months ended March 31, in millions) | 2017   | 2016   |
|---|--------|--------|
| Beginning reserves:                                       |        |        |
| Gross   | \$ 395 | \$ 375 |
| Ceded   | (13)   | (14)   |
| Net   | 382    | 361    |
| Incurred losses and loss expenses:                        |        |        |
| Gross   |        |        |
| Ceded   |        |        |
| Net   |        |        |
| Paid loss and loss expenses:                              |        |        |
| Gross   | 16     | 10     |
| Ceded   |        |        |
| Net   | 16     | 10     |
| Foreign exchange and other:                               |        |        |
| Gross   |        | 1      |
| Ceded   |        |        |
| Net   |        | 1      |
| Ending reserves:  |        |        |
| Gross   | 379    | 366    |
| Ceded   | (13)   | (14)   |
| Net   | \$ 366 | \$ 352 |

**UNCERTAINTY REGARDING ADEQUACY OF ASBESTOS AND ENVIRONMENTAL RESERVES**

As a result of the processes and procedures discussed above, management believes that the reserves carried for asbestos and environmental claims are appropriately established based upon known facts, current law and management's judgment. However, the uncertainties surrounding the final resolution of these claims continue, and it is difficult to determine the ultimate exposure for asbestos and environmental claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in complex litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in the cost to resolve, and/or the number of, asbestos and environmental claims beyond that which is anticipated, the emergence of a greater number of asbestos claims than anticipated as a result of extended life expectancies resulting from medical advances and lifestyle improvements, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of disputes pertaining to the amount of available coverage for asbestos and environmental claims in a manner inconsistent with the Company's previous assessment of these claims, the number and outcome of direct actions against the Company, future developments pertaining to the Company's ability to recover reinsurance for asbestos and environmental claims and the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers. In addition, uncertainties arise from the insolvency or bankruptcy of policyholders and other defendants. It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development of asbestos and environmental claims. This environment could be affected by changes in applicable

legislation and future court and regulatory decisions and interpretations, including the outcome of legal challenges to legislative and/or judicial reforms establishing medical criteria for the pursuit of asbestos claims. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos and environmental reserves, the Company continues to study the implications of these and other developments.

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Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the Company's current insurance reserves. In addition, the Company's estimate of claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company's operating results in future periods.

**INVESTMENT PORTFOLIO**

The Company's invested assets at March 31, 2017 were \$71.26 billion, of which 93% was invested in fixed maturity and short-term investments, 1% in equity securities, 1% in real estate investments and 5% in other investments. Because the primary purpose of the investment portfolio is to fund future claims payments, the Company employs a conservative investment philosophy. A significant majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

The carrying value of the Company's fixed maturity portfolio at March 31, 2017 was \$61.27 billion. The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company's insurance and debt obligations. The weighted average credit quality of the Company's fixed maturity portfolio, both including and excluding U.S. Treasury securities, was Aa2 at both March 31, 2017 and December 31, 2016. Below investment grade securities represented 2.9% of the total fixed maturity investment portfolio at both March 31, 2017 and December 31, 2016. The average effective duration of fixed maturities and short-term securities was 4.3 (4.6 excluding short-term securities) at March 31, 2017 and 4.2 (4.5 excluding short-term securities) at December 31, 2016.

*Obligations of States, Municipalities and Political Subdivisions*

The Company's fixed maturity investment portfolio at March 31, 2017 and December 31, 2016 included \$31.96 billion and \$31.91 billion, respectively, of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). The municipal bond portfolio is diversified across the United States, the District of Columbia and Puerto Rico and includes general obligation and revenue bonds issued by states, cities, counties, school districts and similar issuers. Included in the municipal bond portfolio at March 31, 2017 and December 31, 2016 were \$4.61 billion and \$5.16 billion, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities and obligations of U.S. government and government agencies and authorities. These trusts were created to fund the payment of principal and interest due under the bonds. The irrevocable trusts are verified as to their sufficiency by an independent verification agent of the underwriter, issuer or trustee. All of the Company's holdings of securities issued by Puerto Rico and related entities have been pre-refunded and therefore are defeased by U.S. Treasury securities.

The Company bases its investment decision on the underlying credit characteristics of the municipal security. While its municipal bond portfolio includes a number of securities that were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default, the Company does not rely on enhanced credit characteristics provided by such third-party insurance as part of its investing decisions. Of the insured municipal securities in the Company's investment portfolio at March 31, 2017, approximately 99% were rated at A3 or above, and approximately 97% were rated at Aa3 or above, without the benefit of insurance. The Company believes that a loss of the benefit of insurance would not result in a material adverse impact on the Company's results of operations, financial position or liquidity, due to the underlying credit strength of the issuers of

the securities, as well as the Company's ability and intent to hold the securities. The average credit rating of the underlying issuers of these securities was Aa2 at March 31, 2017. The average credit rating of the entire municipal bond portfolio was Aa1 at March 31, 2017, with and without the enhancement provided by third-party insurance.

*Mortgage-Backed Securities, Collateralized Mortgage Obligations and Pass-Through Securities*

The Company's fixed maturity investment portfolio at March 31, 2017 and December 31, 2016 included \$1.78 billion and \$1.71 billion, respectively, of residential mortgage-backed securities, which include pass-through securities and collateralized mortgage obligations (CMOs), all of which are subject to prepayment risk (either shortening or lengthening of duration).

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While prepayment risk for securities and its effect on income cannot be fully controlled, particularly when interest rates move dramatically, the Company's investment strategy generally favors securities that reduce this risk within expected interest rate ranges. Included in the totals at March 31, 2017 and December 31, 2016 were \$539 million and \$563 million, respectively, of GNMA, FNMA, FHLMC (excluding FHA project loans) and Canadian government guaranteed residential mortgage-backed pass-through securities classified as available for sale. Also included in those totals were residential CMOs classified as available for sale with a fair value of \$1.24 billion and \$1.15 billion at March 31, 2017 and December 31, 2016, respectively. Approximately 52% and 51% of the Company's CMO holdings at March 31, 2017 and December 31, 2016, respectively, were guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC. The average credit rating of the \$591 million and \$566 million of non-guaranteed CMO holdings was Baa1 and Baa2 at March 31, 2017 and December 31, 2016, respectively. The average credit rating of all of the above securities was Aa2 at both March 31, 2017 and December 31, 2016. For further discussion regarding the Company's investments in residential CMOs, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Investment Portfolio in the Company's 2016 Annual Report.

*Equity Securities Available for Sale, Real Estate and Short-Term Investments*

See note 1 of notes to the consolidated financial statements in the Company's 2016 Annual Report for further information about these invested asset classes.

*Other Investments*

The Company also invests in private equity limited partnerships, hedge funds and real estate partnerships and joint ventures. Also included in other investments are non-public common and preferred equities and derivatives. These asset classes have historically provided a higher return than fixed maturities but are subject to more volatility. At March 31, 2017 and December 31, 2016, the carrying value of the Company's other investments was \$3.50 billion and \$3.45 billion, respectively.

**REINSURANCE RECOVERABLES**

For a description of the Company's reinsurance recoverables, refer to Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Reinsurance Recoverables in the Company's 2016 Annual Report.

The following table summarizes the composition of the Company's reinsurance recoverables:

| (in millions)  | March 31,<br>2017 | December 31,<br>2016 |
|--|-------------------|----------------------|
| Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses | \$ 3,153          | \$ 3,181             |
| Allowance for uncollectible reinsurance  | (115)             | (116)                |

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|                                       |                 |          |
|---------------------------------------|-----------------|----------|
| <b>Net reinsurance recoverables</b>   | <b>3,038</b>    | 3,065    |
| Mandatory pools and associations      | <b>2,016</b>    | 2,054    |
| Structured settlements                | <b>3,145</b>    | 3,168    |
| <b>Total reinsurance recoverables</b> | <b>\$ 8,199</b> | \$ 8,287 |

The \$27 million decline in net reinsurance recoverables from December 31, 2016 primarily reflected the impacts of cash collections in the first quarter of 2017.

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**OUTLOOK**

The following discussion provides outlook information for certain key drivers of the Company's results of operations and capital position.

*Premiums.* The Company's earned premiums are a function of net written premium volume. Net written premiums comprise both renewal business and new business and are recognized as earned premium over the life of the underlying policies. When business renews, the amount of net written premiums associated with that business may increase or decrease (renewal premium change) as a result of increases or decreases in rate and/or insured exposures, which the Company considers as a measure of units of exposure (such as the number and value of vehicles or properties insured). Net written premiums from both renewal and new business, and therefore earned premiums, are impacted by competitive market conditions as well as general economic conditions, which, particularly in the case of Business and International Insurance, affect audit premium adjustments, policy endorsements and mid-term cancellations. Property and casualty insurance market conditions are expected to remain competitive. Net written premiums may also be impacted by the structure of reinsurance programs and related costs, as well as changes in foreign currency exchange rates.

Overall, the Company expects retention levels (the amount of expiring premium that renews, before the impact of renewal premium changes) will remain strong by historical standards during the remainder of 2017. In Business and International Insurance, the Company expects that domestic renewal premium changes during the remainder of 2017 will remain positive and will be broadly consistent with the levels attained in the first quarter of 2017. Given the relatively smaller amount of premium that the Company generates from outside the United States and the transactional nature of some of those markets, particularly Lloyd's, international renewal premium changes during the remainder of 2017 could be somewhat higher, broadly consistent with or somewhat lower than the levels attained in the first quarter of 2017. In Bond & Specialty Insurance, the Company expects that renewal premium changes with respect to management liability business during the remainder of 2017 will remain positive, but will be lower than the levels attained in the first quarter of 2017. With respect to surety business within Bond & Specialty Insurance, the Company expects that net written premium volume during the remainder of 2017 will be slightly higher than the level attained in the same period of 2016. In Personal Insurance, the Company expects that Agency Auto renewal premium changes during the remainder of 2017 will remain positive and will be higher than the levels attained in the first quarter of 2017, and Agency Homeowners and Other renewal premium changes during the remainder of 2017 will remain positive and will be broadly consistent with the levels attained in the first quarter of 2017. The need for state regulatory approval for changes to personal property and casualty insurance prices, as well as competitive market conditions, may impact the timing and extent of renewal premium changes.

Property and casualty insurance market conditions are expected to remain competitive during the remainder of 2017 for new business. In each of the Company's business segments, new business generally has less of an impact on underwriting profitability than renewal business, given the volume of new business relative to renewal business. However, in periods of meaningful increases in new business, despite its positive impact on underwriting gains over time, the impact of higher new business levels may negatively impact the combined ratio in the short-term.

General economic and geopolitical uncertainty regarding a variety of domestic and international matters, such as the political and regulatory environment, the U.S. Federal budget and potential changes in tax laws in the United States, the repeal, replacement or modification of the Affordable Care Act, economic uncertainty in the United States and in various parts of the world, the United Kingdom's withdrawal from the European Union, rapid changes in commodity prices, such as in oil, and fluctuations in interest rates and foreign currency exchange rates, has

added to the uncertainty regarding economic conditions generally. If economic conditions deteriorate, the resulting lower levels of economic activity could impact exposure changes at renewal and the Company's ability to write business at acceptable rates. Additionally, lower levels of economic activity could adversely impact audit premium adjustments, policy endorsements and mid-term cancellations after policies are written. All of the foregoing, in turn, could adversely impact net written premiums during the remainder of 2017, and because earned premiums are a function of net written premiums, earned premiums could be adversely impacted on a lagging basis.

*Underwriting Gain/Loss.* The Company's underwriting gain/loss can be significantly impacted by catastrophe losses and net favorable or unfavorable prior year reserve development, as well as underlying underwriting margins.

Catastrophe and non-catastrophe weather-related losses are inherently unpredictable from period to period. The Company's results of operations could be adversely impacted if significant catastrophe and non-catastrophe weather-related losses occur.



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For a number of years, the Company's results have included significant amounts of net favorable prior year reserve development driven by better than expected loss experience. However, given the inherent uncertainty in estimating claims and claim adjustment expense reserves, loss experience could develop such that the Company recognizes higher or lower levels of favorable prior year reserve development, no favorable prior year reserve development or unfavorable prior year reserve development in future periods. In addition, the ongoing review of prior year claims and claim adjustment expense reserves, or other changes in current period circumstances, may result in the Company revising current year loss estimates upward or downward in future periods of the current year.

It is possible that changes in economic conditions could lead to higher inflation than the Company had anticipated, which could in turn lead to an increase in the Company's loss costs and the need to strengthen claims and claim adjustment expense reserves. These impacts of inflation on loss costs and claims and claim adjustment expense reserves could be more pronounced for those lines of business that are considered "long tail", such as general liability, as they require a relatively long period of time to finalize and settle claims for a given accident year. For a further discussion, see Part I Item 1A Risk Factors. If actual claims exceed our claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal, regulatory and economic environments in which the Company operates, our financial results could be materially and adversely affected, and Changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate could adversely impact us in the Company's 2016 Annual Report.

In Business and International Insurance, the Company expects underlying underwriting margins and the underlying combined ratio during the remainder of 2017 will be broadly consistent with those in the same period of 2016, reflecting the modest impact of loss trends in excess of earned pricing, largely offset by lower (and more normalized) levels of non-catastrophe weather-related losses.

In Bond & Specialty Insurance, the Company expects underlying underwriting margins and the underlying combined ratio during the remainder of 2017 will be broadly consistent with those in the same period of 2016.

In Personal Insurance, the Company expects underlying underwriting margins during the remainder of 2017 will be slightly higher than in the same period of 2016 and the underlying combined ratio during the remainder of 2017 will be broadly consistent with the same period of 2016. In Agency Automobile, the Company expects that underlying underwriting margins and the underlying combined ratio will improve during the remainder of 2017 compared with the same period of 2016, reflecting actions taken to improve profitability that will earn in increasingly throughout the year, as well as the timing impact of higher loss trends for bodily injury liability coverages that were recognized in the last half of 2016. In Agency Homeowners and Other, the Company expects that underlying underwriting margins will be slightly lower and the underlying combined ratio will be slightly higher during the remainder of 2017 than in the same period of 2016, reflecting higher (and more normalized) levels of loss activity. Also in Personal Insurance, the Company's direct to consumer initiative, the distribution channel that the Company launched in 2009, while intended to enhance the Company's long-term ability to compete successfully in a consumer-driven marketplace, is expected to remain modest with respect to premium volume and remain unprofitable for a number of years as this book of business grows and matures.

*Investment Portfolio.* The Company expects to continue to focus its investment strategy on maintaining a high-quality investment portfolio and a relatively short average effective duration. The average effective duration of fixed maturities and short-term securities was 4.3 (4.6 excluding short-term securities) at March 31, 2017. From time to time, the Company enters into short positions in U.S. Treasury futures contracts to manage the duration of its fixed maturity portfolio. At March 31, 2017, the Company had \$400 million notional value of open U.S. Treasury futures contracts. The Company continually evaluates its investment alternatives and mix. Currently, the majority of the

Company's investments are comprised of a widely diversified portfolio of high-quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

The Company also invests much smaller amounts in equity securities, real estate, private equity limited partnerships, hedge funds, and real estate partnerships and joint ventures. These investment classes have the potential for higher returns but also the potential for higher degrees of risk, including less stable rates of return and less liquidity.

Net investment income is a material contributor to the Company's results of operations. Based on the current interest rate environment, which remains very low by historical standards, the Company estimates that the impact of lower reinvestment yields on fixed maturity investments, partially offset by the impact of slightly higher levels of fixed maturities combined with higher short-term investment yields could, during the remainder of 2017, result in approximately \$15 million to \$20 million of lower after-tax net investment income from those

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portfolios on a quarterly basis as compared to the corresponding quarters of 2016. The impact of future market conditions on net investment income from the non-fixed maturity investment portfolio during the remainder of 2017 is hard to predict. If general economic conditions and/or investment market conditions deteriorate during the remainder of 2017, the Company could experience a reduction in net investment income and/or significant realized investment losses, including impairments.

The Company had a net pre-tax unrealized investment gain of \$999 million (\$657 million after-tax) in its fixed maturity investment portfolio at March 31, 2017. While the Company does not attempt to predict future interest rate movements, a rising interest rate environment would reduce the market value of fixed maturity investments and, therefore, reduce shareholders' equity, and a declining interest rate environment would have the opposite effects. The Company's investment portfolio has benefited from certain tax exemptions (primarily those related to interest from municipal bonds) and certain other tax laws, including, but not limited to, those governing dividends-received deductions and tax credits (such as foreign tax credits). Changes in these laws could adversely impact the value of the Company's investment portfolio. See "Changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate could adversely impact us" included in "Part I Item 1A Risk Factors" in the Company's 2016 Annual Report.

For further discussion of the Company's investment portfolio, see "Investment Portfolio" herein. For a discussion of the risks to the Company's business during or following a financial market disruption and risks to the Company's investment portfolio, see the risk factors entitled "During or following a period of financial market disruption or an economic downturn, our business could be materially and adversely affected" and "Our investment portfolio is subject to credit and interest rate risk, and may suffer reduced returns or material realized or unrealized losses" included in "Part I Item 1A Risk Factors" in the Company's 2016 Annual Report. For a discussion of the risks to the Company's investments from foreign currency exchange rate fluctuations, see the risk factor entitled

"We are also subject to a number of additional risks associated with our business outside the United States" included in "Part I Item 1A Risk Factors" in the Company's 2016 Annual Report and see "Part II Item 7A Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Exchange Rate Risk" in the Company's 2016 Annual Report.

*Capital Position.* The Company believes it has a strong capital position and, as part of its ongoing efforts to create shareholder value, expects to continue to return capital not needed to support its business operations to its shareholders. The Company expects that, generally over time, the combination of dividends to common shareholders and common share repurchases will likely not exceed net income. In addition, the timing and actual number of shares to be repurchased in the future will depend on a variety of additional factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. For information regarding the Company's common share repurchases in 2017, see "Liquidity and Capital Resources." As a result of the Company's business outside of the United States, primarily in Canada, the United Kingdom (including Lloyd's), the Republic of Ireland and Brazil, the Company's capital is also subject to the effects of changes in foreign currency exchange rates. For example, strengthening of the U.S. dollar in comparison to other currencies could result in a reduction of shareholders' equity. For additional discussion of the Company's foreign exchange market risk exposure, see "Part II Item 7A Quantitative and Qualitative Disclosures About Market Risk" in the Company's 2016 Annual Report.

Many of the statements in this Outlook section are forward-looking statements, which are subject to risks and uncertainties that are often difficult to predict and beyond the Company's control. Actual results could differ materially from those expressed or implied by such forward-looking statements. Further, such forward-looking statements speak only as of the date of this report and the Company undertakes no obligation to update them. See Forward Looking Statements. For a discussion of potential risks and uncertainties that could impact the Company's results of operations or financial position, see Part I Item 1A Risk Factors in the Company's 2016 Annual Report and Critical Accounting Estimates.

## **LIQUIDITY AND CAPITAL RESOURCES**

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the cash requirements of its business operations and to satisfy general corporate purposes when needed.

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*Operating Company Liquidity.* The liquidity requirements of the Company's insurance subsidiaries are met primarily by funds generated from premiums, fees, income received on investments and investment maturities. For further discussion of operating company liquidity, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in the Company's 2016 Annual Report.

*Holding Company Liquidity.* TRV's liquidity requirements primarily include shareholder dividends, debt servicing, common share repurchases and, from time to time, contributions to its qualified domestic pension plan. At March 31, 2017, TRV held total cash and short-term invested assets in the United States aggregating \$2.11 billion and having a weighted average maturity of 60 days. TRV has established a holding company liquidity target equal to its estimated annual pre-tax interest expense and common shareholder dividends (currently approximately \$1.1 billion). TRV's holding company liquidity of \$2.11 billion at March 31, 2017 exceeded this target and it is the opinion of the Company's management that these assets are sufficient to meet TRV's current liquidity requirements.

TRV is not dependent on dividends or other forms of repatriation from its foreign operations to support its liquidity needs. U.S. income taxes have not been recognized on substantially all of the Company's foreign operations' undistributed earnings as of March 31, 2017, as such earnings are intended to be permanently reinvested in those operations. Furthermore, taxes paid to foreign governments on these earnings may be used as credits against the U.S. tax on dividend distributions if such earnings were to be distributed to the holding company. The amount of undistributed earnings from foreign operations and related taxes on those undistributed earnings were not material to the Company's financial position or liquidity at March 31, 2017.

TRV has a shelf registration statement filed with the Securities and Exchange Commission that expires on June 17, 2019 which permits it to issue securities from time to time. TRV also has a \$1.0 billion line of credit facility with a syndicate of financial institutions that expires on June 7, 2018. This line of credit also supports TRV's \$800 million commercial paper program, of which \$100 million was outstanding at March 31, 2017. TRV is not reliant on its commercial paper program to meet its operating cash flow needs.

The Company utilized uncollateralized letters of credit issued by major banks with an aggregate limit of approximately \$179 million, to provide a portion of the capital needed to support its obligations at Lloyd's at March 31, 2017. If uncollateralized letters of credit are not available at a reasonable price or at all in the future, the Company can collateralize these letters of credit or may have to seek alternative means of supporting its obligations at Lloyd's, which could include utilizing holding company funds on hand.

On December 15, 2017, the Company's \$450 million, 5.75% senior notes will mature. The Company may pay this maturing debt through funds generated internally or, depending on market conditions, through funds generated externally. The Company recently announced that it had agreed to acquire U.K.-based Simply Business for total consideration of approximately \$490 million, which includes the repayment of debt and other obligations at the completion of the transaction. The Company expects to fund this transaction, subject to market conditions, through a combination of debt financing and internal resources.

**Operating Activities**

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Net cash flows provided by operating activities in the first quarters of 2017 and 2016 were \$775 million and \$850 million, respectively.

### **Investing Activities**

Net cash flows used in investing activities in the first quarters of 2017 and 2016 were \$442 million and \$146 million, respectively. The Company's consolidated total investments at March 31, 2017 increased by \$769 million, or 1% over year-end 2016, primarily reflecting the impacts of net cash flows provided by operating activities and an increase in the unrealized appreciation of investments, partially offset by common share repurchases and dividends paid to shareholders.

### **Financing Activities**

Net cash flows used in financing activities in the first quarters of 2017 and 2016 were \$393 million and \$725 million, respectively. The totals in both periods primarily reflected common share repurchases and dividends paid to shareholders, partially offset by the proceeds from employee stock option exercises. Common share repurchases in the first quarters of 2017 and 2016 were \$286 million and \$609 million, respectively. Share repurchases in the first quarter of 2017 were lower than in the same period of 2016 as the Company moderated its share repurchases to provide financing flexibility for the pending acquisition of Simply Business.

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*Dividends.* Dividends paid to shareholders were \$190 million and \$180 million in the first quarters of 2017 and 2016, respectively. The declaration and payment of future dividends to holders of the Company's common stock will be at the discretion of the Company's Board of Directors and will depend upon many factors, including the Company's financial position, earnings, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints and other factors as the Board of Directors deems relevant. Dividends will be paid by the Company only if declared by its Board of Directors out of funds legally available, subject to any other restrictions that may be applicable to the Company. On April 20, 2017, the Company announced that it increased its regular quarterly dividend from \$0.67 per share to \$0.72 per share, a 7.5% increase. The increased dividend is payable June 30, 2017 to shareholders of record on June 9, 2017.

*Share Repurchase Authorization.* The Company's Board of Directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. During the three months ended March 31, 2017, the Company repurchased 1.9 million shares under its share repurchase authorization for a total cost of \$225 million. The average cost per share repurchased was \$120.86. On April 20, 2017, the Board of Directors approved a share repurchase authorization that added \$5.0 billion of repurchase capacity to the \$709 million of capacity remaining at March 31, 2017.

*Capital Structure.* The following table summarizes the components of the Company's capital structure at March 31, 2017 and December 31, 2016.

| (in millions)  | March 31,<br>2017 | December 31,<br>2016 |
|--|-------------------|----------------------|
| Debt:  |                   |                      |
| Short-term   | \$ 550            | \$ 550               |
| Long-term  | 5,911             | 5,911                |
| Net unamortized fair value adjustments and debt issuance costs | (23)              | (24)                 |
| Total debt   | 6,438             | 6,437                |
| Shareholders' equity:  |                   |                      |
| Common stock and retained earnings, less treasury stock        | 24,227            | 23,976               |
| Accumulated other comprehensive loss                           | (615)             | (755)                |
| Total shareholders' equity                                     | 23,612            | 23,221               |
| Total capitalization   | \$ 30,050         | \$ 29,658            |

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The following table provides a reconciliation of total capitalization presented in the foregoing table to total capitalization excluding net unrealized gain on investments.

| (dollars in millions)  | March 31,<br>2017 | December 31,<br>2016 |
|--|-------------------|----------------------|
| Total capitalization   | \$ 30,050         | \$ 29,658            |
| Less: net unrealized gain on investments, net of taxes                   | 823               | 730                  |
| Total capitalization excluding net unrealized gains on investments       | \$ 29,227         | \$ 28,928            |
| Debt-to-total capital ratio  | 21.4%             | 21.7%                |
| Debt-to-total capital ratio excluding net unrealized gain on investments | 22.0%             | 22.3%                |

The debt-to-total capital ratio excluding net unrealized gain on investments is calculated by dividing (a) debt by (b) total capitalization excluding net unrealized gains and losses on investments, net of taxes. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the



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opinion of the Company's management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company's financial leverage position. The Company's ratio of debt-to-total capital (excluding after-tax net unrealized investment gains) of 22.0% at March 31, 2017 was within the Company's target range of 15% to 25%.

**RATINGS**

Ratings are an important factor in assessing the Company's competitive position in the insurance industry. The Company receives ratings from the following major rating agencies: A.M. Best Company (A.M. Best), Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Corp. (S&P). There were no rating agency actions taken with respect to the Company since February 16, 2017, the date on which the Company's 2016 Annual Report was filed with the Securities and Exchange Commission. For additional discussion of ratings, see Part I Item 1 Business Ratings in the Company's 2016 Annual Report.

**CRITICAL ACCOUNTING ESTIMATES**

For a description of the Company's critical accounting estimates, refer to Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in the Company's 2016 Annual Report. The Company considers its most significant accounting estimates to be those applied to claims and claim adjustment expense reserves and related reinsurance recoverables, investment valuation and impairments, and goodwill and other intangible assets impairments. Except as shown in the table below, there have been no material changes to the Company's critical accounting estimates since December 31, 2016.

**Claims and Claim Adjustment Expense Reserves**

The table below displays the Company's gross claims and claim adjustment expense reserves by product line. Because the establishment of claims and claim adjustment expense reserves is an inherently uncertain process involving estimates, currently established claims and claim adjustment expense reserves may change. The Company reflects adjustments to the reserves in the results of operations in the period the estimates are changed. These changes in estimates could result in income statement charges that could be material to the Company's operating results in future periods. In particular, a portion of the Company's gross claims and claim adjustment expense reserves (totaling \$1.82 billion at March 31, 2017) are for asbestos and environmental claims and related litigation. Asbestos and environmental reserves are included in the General liability, Commercial multi-peril and International and other lines in the summary table below. While the ongoing review of asbestos and environmental claims and associated liabilities considers the inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of the Company's management, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could be material to the Company's future operating results. Asbestos and environmental reserves are discussed separately; see Asbestos Claims and Litigation, Environmental Claims and Litigation and Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves in this report.

Gross claims and claim adjustment expense reserves by product line were as follows:

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| (in millions)                                       | March 31, 2017   |                  |                  | December 31, 2016 |                  |                  |
|---|------------------|------------------|------------------|-------------------|------------------|------------------|
|   | Case             | IBNR             | Total            | Case              | IBNR             | Total            |
| General liability                                   | \$ 4,846         | \$ 6,932         | \$ 11,778        | \$ 4,951          | \$ 6,925         | \$ 11,876        |
| Commercial property                                 | 738              | 431              | 1,169            | 752               | 357              | 1,109            |
| Commercial multi-peril                              | 1,804            | 1,985            | 3,789            | 1,807             | 1,935            | 3,742            |
| Commercial automobile                               | 2,166            | 1,173            | 3,339            | 2,190             | 1,178            | 3,368            |
| Workers compensation                                | 10,346           | 8,937            | 19,283           | 10,322            | 8,786            | 19,108           |
| Fidelity and surety                                 | 231              | 323              | 554              | 242               | 323              | 565              |
| Personal automobile                                 | 1,863            | 1,080            | 2,943            | 1,852             | 1,038            | 2,890            |
| Homeowners and personal other                       | 610              | 654              | 1,264            | 622               | 468              | 1,090            |
| International and other                             | 2,648            | 1,534            | 4,182            | 2,740             | 1,441            | 4,181            |
| <b>Property-casualty</b>                            | <b>25,252</b>    | <b>23,049</b>    | <b>48,301</b>    | <b>25,478</b>     | <b>22,451</b>    | <b>47,929</b>    |
| <b>Accident and health</b>                          | <b>19</b>        |                  | <b>19</b>        | <b>20</b>         |                  | <b>20</b>        |
| <b>Claims and claim adjustment expense reserves</b> | <b>\$ 25,271</b> | <b>\$ 23,049</b> | <b>\$ 48,320</b> | <b>\$ 25,498</b>  | <b>\$ 22,451</b> | <b>\$ 47,949</b> |

The \$371 million increase in gross claims and claim adjustment expense reserves since December 31, 2016 primarily reflected the impacts of (i) higher volumes of insured exposures and loss cost trends for the current accident year and (ii) catastrophe losses incurred in the first quarter of 2017, partially offset by the impacts of (iii) payments related to operations in runoff and (iv) net favorable prior year reserve development.

**FUTURE APPLICATION OF ACCOUNTING STANDARDS**

See note 1 of notes to the Company's unaudited consolidated financial statements contained in this quarterly report and in the Company's 2016 Annual Report for a discussion of recently issued accounting pronouncements.

**FORWARD-LOOKING STATEMENTS**

This report contains, and management may make, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as may, will, should, likely, anticipates, expects, intends, plans, projects, believes, estimates and similar expressions are used to identify these statements. These statements include, among other things, the Company's statements about:

- the Company's outlook and its future results of operations and financial condition (including, among other things, anticipated premium volume, premium rates, margins, net and core income, investment income and performance, loss costs, return on equity, core return on equity and expected current returns and combined ratios);
- share repurchase plans;
- future pension plan contributions;

- the sufficiency of the Company's asbestos and other reserves;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the cost and availability of reinsurance coverage;
- catastrophe losses;
- the impact of investment, economic (including inflation, potential changes in tax law and rapid changes in commodity prices, such as a significant decline in oil and gas prices, as well as fluctuations in foreign currency exchange rates) and underwriting market conditions;
- strategic initiatives to improve profitability and competitiveness; and
- the potential closing date and impact of the Company's acquisition of Simply Business.

The Company cautions investors that such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the Company's control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Some of the factors that could cause actual results to differ include, but are not limited to, the following:

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- catastrophe losses could materially and adversely affect the Company's results of operations, its financial position and/or liquidity, and could adversely impact the Company's ratings, the Company's ability to raise capital and the availability and cost of reinsurance;
- if actual claims exceed the Company's claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal, regulatory and economic environments in which the Company operates, the Company's financial results could be materially and adversely affected;
- during or following a period of financial market disruption or an economic downturn, the Company's business could be materially and adversely affected;
- the Company's investment portfolio is subject to credit risk, and may suffer material realized or unrealized losses. The Company's investment portfolio may also suffer reduced or low returns, particularly if interest rates remain at historically low levels for a prolonged period of time or decline further as a result of actions taken by central banks (a risk which potentially could be increased by, among other things, the United Kingdom's withdrawal from the European Union);
- the Company's business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation;
- the intense competition that the Company faces, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which the Company operates, could harm its ability to maintain or increase its business volumes and its profitability;
- disruptions to the Company's relationships with its independent agents and brokers or the Company's inability to manage effectively a changing distribution landscape could adversely affect the Company;
- the Company is exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances;
- the effects of emerging claim and coverage issues on the Company's business are uncertain;
- the Company may not be able to collect all amounts due to it from reinsurers, reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all and the Company is exposed to credit risk related to its structured settlements;
- the Company is also exposed to credit risk in certain of its insurance operations and with respect to certain guarantee or indemnification arrangements that it has with third parties;
- within the United States, the Company's businesses are heavily regulated by the states in which it conducts business, including licensing and supervision, and changes in regulation may reduce the Company's profitability and limit its growth;
- a downgrade in the Company's claims-paying and financial strength ratings could adversely impact the Company's business volumes, adversely impact the Company's ability to access the capital markets and increase the

Company's borrowing costs;

- the inability of the Company's insurance subsidiaries to pay dividends to the Company's holding company in sufficient amounts would harm the Company's ability to meet its obligations, pay future shareholder dividends or make future share repurchases;
- the Company's efforts to develop new products or expand in targeted markets may not be successful and may create enhanced risks;
- the Company may be adversely affected if its pricing and capital models provide materially different indications than actual results;
- the Company's business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology;
- if the Company experiences difficulties with technology, data and network security (including as a result of cyber attacks), outsourcing relationships, or cloud-based technology, the Company's ability to conduct its business could be negatively impacted;
- changes in U.S. tax laws or in the tax laws of other jurisdictions in which the Company operates could adversely impact the Company;
- the Company is also subject to a number of additional risks associated with its business outside the United States, including foreign currency exchange fluctuations and restrictive regulations, as well as the risks and uncertainties associated with the United Kingdom's withdrawal from the European Union;
- regulatory changes outside of the United States, including in Canada and the European Union, could adversely impact the Company's results of operations and limit its growth;

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- loss of or significant restrictions on the use of particular types of underwriting criteria, such as credit scoring, or other data or methodologies, in the pricing and underwriting of the Company's products could reduce the Company's future profitability;
- acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences;
- the Company could be adversely affected if its controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective;
- the Company's businesses may be adversely affected if it is unable to hire and retain qualified employees;
- intellectual property is important to the Company's business, and the Company may be unable to protect and enforce its own intellectual property or the Company may be subject to claims for infringing the intellectual property of others;
- changes in federal regulation could impose significant burdens on the Company and otherwise adversely impact the Company's results;
- changes to existing U.S. accounting standards may adversely impact the Company's reported results; and
- the Company's share repurchase plans depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors.

The Company's forward-looking statements speak only as of the date of this report or as of the date they are made, and the Company undertakes no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions Part I Item 1A Risk Factors in the Company's 2016 Annual Report filed with the Securities and Exchange Commission and Management's Discussion and Analysis of Financial Condition and Results of Operations herein and in the Company's 2016 Annual Report.

**WEBSITE AND SOCIAL MEDIA DISCLOSURE**

The Company may use its website and/or social media outlets, such as Facebook and Twitter, as distribution channels of material company information. Financial and other important information regarding the Company is routinely posted on and accessible through the Company's website at <http://investor.travelers.com>, its Facebook page at <https://www.facebook.com/travelers> and its Twitter account (@Travelers) at <https://twitter.com/Travelers>. In addition, you may automatically receive email alerts and other information about the Company when you enroll your email address by visiting the Email Notifications section at <http://investor.travelers.com>.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For the Company's disclosures about market risk, please see Part II Item 7A Quantitative and Qualitative Disclosures About Market Risk in the Company's 2016 Annual Report filed with the Securities and Exchange Commission. There have been no material changes to the Company's disclosures about market risk in Part II Item 7A of the Company's 2016 Annual Report.

**Item 4. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2017. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2017, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.



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In addition, there was no change in the Company's internal control over financial reporting (as that term is defined in Rules

13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company regularly seeks to identify, develop and implement improvements to its technology systems and business processes, some of which may affect its internal control over financial reporting. These changes may include such activities as implementing new, more efficient systems, updating existing systems or platforms, automating manual processes or utilizing technology developed by third parties. These systems changes are often phased in over multiple periods in order to limit the implementation risk in any one period, and as each change is implemented the Company monitors its effectiveness as part of its internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

The information required with respect to this item can be found under "Contingencies" in note 12 of notes to the Company's unaudited consolidated financial statements contained in this quarterly report and is incorporated by reference into this Item 1.

**Item 1A. RISK FACTORS**

For a discussion of the Company's potential risks or uncertainties, please see "Part I Item 1A Risk Factors" in the Company's 2016 Annual Report filed with the Securities and Exchange Commission. In addition, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Outlook" and "Critical Accounting Estimates" herein and in the Company's 2016 Annual Report. There have been no material changes to the risk factors disclosed in Part I Item 1A of the Company's 2016 Annual Report.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The table below sets forth information regarding repurchases by the Company of its common stock during the periods indicated.

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period Beginning                           | Period Ending     | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) |
|--|-------------------|----------------------------------|------------------------------|--|--|
| January 1, 2017                            | January 31, 2017  | 213,406                          | \$ 117.78                    | 212,410  | \$ 909   |
| February 1, 2017                           | February 28, 2017 | 1,394,963                        | \$ 119.95                    | 887,703  | \$ 802   |
| March 1, 2017                              | March 31, 2017    | 761,900                          | \$ 122.82                    | 761,900  | \$ 709   |
| <b>Total</b>                               |                   | 2,370,269                        | \$ 120.68                    | 1,862,013  | \$ 709   |
| Additional authorization on April 20, 2017 |                   |                                  |                              |  | \$ 5,000   |

The Company's Board of Directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, funding of the Company's qualified pension plan, capital

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requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. On April 20, 2017, the Board of Directors approved a share repurchase authorization that added \$5.0 billion of repurchase capacity to the \$709 million of capacity remaining at March 31, 2017.

The Company acquired 508,256 shares for a total cost of approximately \$61 million during the three months ended March 31, 2017 that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock unit awards and performance share awards, and shares used by employees to cover the price of certain stock options that were exercised.

**Item 5. OTHER INFORMATION**

*Executive Ownership and Sales.* All of the Company's executive officers are subject to the Company's executive stock ownership policy. For a summary of this policy as currently in effect, see "Compensation Discussion and Analysis Stock Ownership Guidelines, Anti-Hedging and Pledging Policies, and Other Trading Restrictions" in the Company's proxy statement filed with the Securities and Exchange Commission on March 31, 2017. From time to time, some of the Company's executives may determine that it is advisable to diversify their investments for personal financial planning reasons, or may seek liquidity for other reasons, and may, in compliance with the stock ownership policy, sell shares of common stock of the Company on the open market, in private transactions or to the Company. To effect such sales, from time to time, some of the Company's executives may enter into trading plans designed to comply with the Company's Securities Trading Policy and the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934. The trading plans will not reduce any of the executives' ownership of the Company's shares below the applicable executive stock ownership guidelines. The Company does not undertake any obligation to report Rule 10b5-1 plans that may be adopted by any employee or director of the Company in the future, or to report any modifications or termination of any publicly announced plan. As of the date of this report, none of the Company's named executive officers (i.e., an executive officer named in the compensation disclosures in the Company's proxy statement filed with the SEC on March 31, 2017) have entered into a Rule 10b5-1 trading plan that remains in effect.

*Glossary of Selected Insurance Terms.* The following definitions of "core income (loss)", "core income (loss) per share" and "core return on equity" replace the definitions of "operating income (loss)", "operating income (loss) per share" and "operating return on equity", respectively, which were previously provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The calculations of all three newly defined terms are unchanged from the calculations of the previously defined terms.

|                    |   |
|--------------------|---|
| Core income (loss) | Consolidated net income (loss) excluding the after-tax impact of net realized investment gains (losses), discontinued operations and cumulative effect of changes in accounting principles when applicable. |
|--------------------|---|

|                              |  |
|------------------------------|--|
| Core income (loss) per share | Core income (loss) on a per share basis. |
|------------------------------|--|

Core return on equity                      The ratio of core income to average equity excluding net unrealized investment gains and losses and discontinued operations, net of tax.

The term segment income (loss) is a newly defined term that is calculated on the same basis as core income (loss) except on a segment basis only. This calculation is unchanged from the Company's previously used term operating income by reportable business segment.

Segment income (loss)                      Comparable to core income (loss) on a segment basis.

**Item 6. EXHIBITS**

See Exhibit Index.

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**SIGNATURES**

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

**THE TRAVELERS COMPANIES, INC.**  
**(Registrant)**

Date: April 20, 2017

By

**/S/ KENNETH F. SPENCE III**  
**Kenneth F. Spence III**  
**Executive Vice President and General Counsel**  
**(Authorized Signatory)**

Date: April 20, 2017

By

**/S/ DOUGLAS K. RUSSELL**  
**Douglas K. Russell**  
**Senior Vice President and Corporate Controller**  
**(Principal Accounting Officer)**

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**EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   |
|-----------------------|---|
| 3.1                   | Amended and Restated Articles of Incorporation of The Travelers Companies, Inc. ( the Company ), as amended and restated May 23, 2013, were filed as Exhibit 3.1 to the Company s current report on Form 8-K filed on May 24, 2013, and are incorporated herein by reference.   |
| 3.2                   | Bylaws of The Travelers Companies, Inc. as Amended and Restated November 3, 2016 were filed as Exhibit 3.2 to the Company s current report on Form 8-K filed on November 9, 2016, and are incorporated herein by reference.   |
| 12.1                  | Statement regarding the computation of the ratio of earnings to fixed charges.  |
| 31.1                  | Certification of Alan D. Schnitzer, Chief Executive Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2                  | Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1                  | Certification of Alan D. Schnitzer, Chief Executive Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2                  | Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.1                 | The following financial information from The Travelers Companies, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 formatted in XBRL: (i) Consolidated Statement of Income for the three months ended March 31, 2017 and 2016; (ii) Consolidated Statement of Comprehensive Income for the three months ended March 31, 2017 and 2016; (iii) Consolidated Balance Sheet at March 31, 2017 and December 31, 2016; (iv) Consolidated Statement of Changes in Shareholders Equity for the three months ended March 31, 2017 and 2016; (v) Consolidated Statement of Cash Flows for the three months ended March 31, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements. |

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Filed herewith.

The total amount of securities authorized pursuant to any instrument defining rights of holders of long-term debt of the Company does not exceed 10% of the total assets of the Company and its consolidated subsidiaries. Therefore, the Company is not filing any instruments evidencing long-term debt. However, the Company will furnish copies of any such instrument to the Securities and Exchange Commission upon request.

Copies of any of the exhibits referred to above will be furnished to security holders who make written request therefor to The Travelers Companies, Inc., 385 Washington Street, Saint Paul, MN 55102, Attention: Corporate Secretary.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant

agreement or document and may not describe the actual state of affairs at the date they were made or at any other time.