

TRAVELERS COMPANIES, INC.

Form 10-Q

July 21, 2016

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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 June 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of the Registrant's Common Stock, without par value, outstanding at July 18, 2016 was 288,281,317.

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**The Travelers Companies, Inc.**

**Quarterly Report on Form 10-Q**

**For Quarterly Period Ended June 30, 2016**

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June 30, 2016 and 2015, respectively, and \$(22) million and \$(9) million for the six months ended June 30, 2016 and 2015, respectively, were recognized in net realized investment gains. In addition, unrealized gains (losses) from other changes in total OTTI of \$0 million and \$(2) million for the three months ended June 30, 2016 and 2015, respectively, and \$(10) million and \$(3) million for the six months ended June 30, 2016 and 2015, respectively, were recognized in other comprehensive income (loss) 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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Net income</b>	\$ 664	\$ 812	\$ 1,355	\$ 1,645
<b>Other comprehensive income (loss):</b>				
Changes in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	879	(1,065)	1,593	(896)
Having credit losses recognized in the consolidated statement of income	12	(5)	17	(10)
Net changes in benefit plan assets and obligations	18	23	34	47
Net changes in unrealized foreign currency translation	(35)	94	68	(180)
<b>Other comprehensive income (loss) before income taxes</b>	<b>874</b>	<b>(953)</b>	<b>1,712</b>	<b>(1,039)</b>
Income tax expense (benefit)	323	(353)	590	(328)
<b>Other comprehensive income (loss), net of taxes</b>	<b>551</b>	<b>(600)</b>	<b>1,122</b>	<b>(711)</b>
<b>Comprehensive income</b>	<b>\$ 1,215</b>	<b>\$ 212</b>	<b>\$ 2,477</b>	<b>\$ 934</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)

	June 30, 2016 (Unaudited)	December 31, 2015
<b>Assets</b>		
Fixed maturities, available for sale, at fair value (amortized cost \$59,975 and \$58,878)	\$ 63,311	\$ 60,658
Equity securities, available for sale, at fair value (cost \$525 and \$528)	752	705
Real estate investments	929	989
Short-term securities	3,988	4,671
Other investments	3,490	3,447
<b>Total investments</b>	<b>72,470</b>	<b>70,470</b>
Cash	265	380
Investment income accrued	627	642
Premiums receivable	7,014	6,437
Reinsurance recoverables	8,603	8,910
Ceded unearned premiums	726	656
Deferred acquisition costs	1,954	1,849
Deferred taxes		296
Contractholder receivables	4,541	4,374
Goodwill	3,588	3,573
Other intangible assets	274	279
Other assets	2,384	2,318
<b>Total assets</b>	<b>\$ 102,446</b>	<b>\$ 100,184</b>
<b>Liabilities</b>		
Claims and claim adjustment expense reserves	\$ 47,953	\$ 48,295
Unearned premium reserves	12,520	11,971
Contractholder payables	4,541	4,374
Payables for reinsurance premiums	401	296
Deferred taxes	370	
Debt	6,436	6,344
Other liabilities	5,511	5,306
<b>Total liabilities</b>	<b>77,732</b>	<b>76,586</b>
<b>Shareholders equity</b>		
Common stock (1,750.0 shares authorized; 288.3 and 295.9 shares issued and outstanding)	22,349	22,172
Retained earnings	30,921	29,945
Accumulated other comprehensive income (loss)	965	(157)
Treasury stock, at cost (478.1 and 467.6 shares)	(29,521)	(28,362)
<b>Total shareholders equity</b>	<b>24,714</b>	<b>23,598</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 102,446</b>	<b>\$ 100,184</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 six months ended June 30,	2016	2015
<b>Common stock</b>		
Balance, beginning of year	\$ 22,172	\$ 21,843
Employee share-based compensation	95	87
Compensation amortization under share-based plans and other changes	82	109
Balance, end of period	22,349	22,039
<b>Retained earnings</b>		
Balance, beginning of year	29,945	27,251
Net income	1,355	1,645
Dividends	(378)	(372)
Other	(1)	
Balance, end of period	30,921	28,524
<b>Accumulated other comprehensive income (loss), net of tax</b>		
Balance, beginning of year	(157)	880
Other comprehensive income (loss)	1,122	(711)
Balance, end of period	965	169
<b>Treasury stock (at cost)</b>		
Balance, beginning of year	(28,362)	(25,138)
Treasury stock acquired share repurchase authorization	(1,100)	(1,400)
Net shares acquired related to employee share-based compensation plans	(59)	(73)
Balance, end of period	(29,521)	(26,611)
<b>Total shareholders equity</b>	<b>\$ 24,714</b>	<b>\$ 24,121</b>
<b>Common shares outstanding</b>		
Balance, beginning of year	295.9	322.2
Treasury stock acquired share repurchase authorization	(10.0)	(13.5)
Net shares issued under employee share-based compensation plans	2.4	2.5
Balance, end of period	288.3	311.2

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 CASH FLOWS (Unaudited)**

(in millions)

For the six months ended June 30,	2016	2015
<b>Cash flows from operating activities</b>		
Net income	\$ 1,355	\$ 1,645
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	(10)	(20)
Depreciation and amortization	413	429
Deferred federal income tax expense	75	142
Amortization of deferred acquisition costs	1,960	1,926
Equity in income from other investments	(44)	(134)
Premiums receivable	(567)	(486)
Reinsurance recoverables	316	263
Deferred acquisition costs	(2,062)	(1,991)
Claims and claim adjustment expense reserves	(387)	(826)
Unearned premium reserves	531	362
Other	(287)	(435)
<b>Net cash provided by operating activities</b>	<b>1,293</b>	<b>875</b>
<b>Cash flows from investing activities</b>		
Proceeds from maturities of fixed maturities	3,773	5,314
Proceeds from sales of investments:		
Fixed maturities	739	1,226
Equity securities	38	28
Real estate investments	69	10
Other investments	343	354
Purchases of investments:		
Fixed maturities	(5,705)	(6,239)
Equity securities	(26)	(22)
Real estate investments	(20)	(69)
Other investments	(290)	(275)
Net sales of short-term securities	681	433
Securities transactions in course of settlement	461	183
Other	(154)	(178)
<b>Net cash provided by (used in) investing activities</b>	<b>(91)</b>	<b>765</b>
<b>Cash flows from financing activities</b>		
Treasury stock acquired share repurchase authorization	(1,100)	(1,400)
Treasury stock acquired net employee share-based compensation	(59)	(72)
Dividends paid to shareholders	(375)	(369)
Payment of debt	(400)	
Issuance of debt	491	
Issuance of common stock employee share options	129	117
Excess tax benefits from share-based payment arrangements		31
<b>Net cash used in financing activities</b>	<b>(1,314)</b>	<b>(1,693)</b>
Effect of exchange rate changes on cash	(3)	(4)
Net decrease in cash	(115)	(57)
Cash at beginning of year	380	374

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<b>Cash at end of period</b>	\$	<b>265</b>	\$	317
<b>Supplemental disclosure of cash flow information</b>				
Income taxes paid	\$	<b>467</b>	\$	597
Interest paid	\$	<b>180</b>	\$	183

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, 2015 (the Company's 2015 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. Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

**Adoption of Accounting Standards**

*Compensation – Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*

In June 2014, the Financial Accounting Standards Board (FASB) issued updated guidance to resolve diversity in practice concerning employee share-based payments that contain performance targets that could be achieved after the requisite service period. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. As such, the performance target that affects vesting should not be reflected in estimating the fair value of the award at the grant date. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered. If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service

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period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The updated guidance was effective for reporting periods beginning after December 15, 2015. 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: Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*

In November 2014, the FASB issued updated guidance to clarify when the separation of certain embedded derivative features in a hybrid financial instrument that is issued in the form of a share is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The updated guidance was effective for reporting periods beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

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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**

*Consolidation: Amendments to the Consolidation Analysis*

In February 2015, the FASB issued updated guidance that makes targeted amendments to the current consolidation accounting guidance. The update is in response to accounting complexity concerns, particularly from the asset management industry. The guidance simplifies consolidation accounting by reducing the number of approaches to consolidation, provides a scope exception to registered money market funds and similar unregistered money market funds and ends the indefinite deferral granted to investment companies from applying the variable interest entity guidance. The updated guidance was effective for reporting periods beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

*Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*

In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The updated guidance was effective for reporting periods beginning after December 15, 2015. The updated guidance is consistent with the Company's accounting policy and its adoption did not have any effect on the Company's results of operations, financial position or liquidity.

*Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments*

In September 2015, the FASB issued updated guidance regarding business combinations that requires an acquirer to recognize post-close measurement adjustments for provisional amounts in the period the adjustment amounts are determined rather than retrospectively. The acquirer is also required to recognize, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the provisional amount, calculated as if the accounting had been completed at the acquisition date. The updated guidance is to be applied prospectively effective for reporting periods beginning after December 15, 2015. In connection with business combinations which have already been completed, the adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.



*Compensation Stock Compensation: Improvements to Employee Share-Based Payment Accounting*

In March 2016, the FASB issued updated guidance to simplify several aspects of accounting for share-based payment transactions as follows:

Accounting for Income Taxes

Under current accounting guidance, if the deduction for a share-based payment award for tax purposes exceeds, or is less than, the compensation cost recognized for financial reporting purposes, the resulting excess tax benefit, or tax deficiency, is reported as part of additional paid-in capital. Under the updated guidance, these excess tax benefits, or tax deficiencies, are reported as part of income tax expense or benefit in the income statement. The updated guidance also removes the requirement to delay recognition of any excess tax benefit when there are no current taxes payable to which the benefit would be applied. The tax-related cash flows resulting from share-based payments are to be included with other income tax cash flows as an operating activity rather than being reported separately as a financing activity.

Forfeitures

The updated guidance permits an entity to make an accounting policy election to either account for forfeitures when they occur or continue to apply the current method of accruing the compensation cost based on the number of awards that are expected to vest.

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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**

Minimum Statutory Tax Withholding Requirements

The updated guidance changes the threshold amount an entity can withhold for taxes when settling an equity award and still qualify for equity classification. A company can withhold up to the maximum statutory tax rates in the employees' applicable jurisdiction rather than withholding up to the employers' minimum statutory withholding requirement. The update also clarifies that all cash payments made to taxing authorities on behalf of employees for withheld shares are to be presented in financing activities on the statement of cash flows.

Transition

The updated guidance is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted in any interim period; if early adoption is elected, the entity must adopt all of the amendments in the same reporting period and reflect any adjustments as of the beginning of the fiscal year.

The Company adopted the updated guidance effective January 1, 2016. With respect to the forfeiture accounting policy election, the Company elected to retain its policy of accruing the compensation cost based on the number of awards that are expected to vest. The adoption did not result in any cumulative effect adjustments or restatement and did not have a material effect on the Company's results of operations, financial position or liquidity.

**Accounting Standards Not Yet Adopted**

*Leases*

In February 2016, the FASB issued updated guidance to require lessees to recognize a right-to-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-to-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately

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from the amortization expense of the right-to-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

The updated guidance is effective for reporting periods beginning after December 15, 2018, and will require that the earliest comparative period presented include the measurement and recognition of existing leases with an adjustment to equity as if the updated guidance had always been applied. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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

In March 2016, the 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 is effective for reporting periods beginning after December 15, 2016, and is to be applied prospectively. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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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**

*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 is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

*Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. The Company will not be able to determine the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted.

*Additional Accounting Standards Not Yet Adopted*

For information regarding additional 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 2015 Annual Report.

**Nature of Operations**

The Company is organized into three reportable business segments: Business and International Insurance; Bond & Specialty Insurance; and Personal Insurance. These segments reflect the manner in which the Company's businesses are currently managed and represent an aggregation of products and services based on type of customer, how the business is marketed and the manner in which risks are underwritten. For more information regarding the Company's nature of operations, see the Nature of Operations section of note 1 of notes to the consolidated financial statements in the Company's 2015 Annual Report.

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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 operating revenues, operating income and total assets by reportable business segments:

(for the three months ended June 30, in millions)	Business and International Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
<b>2016</b>				
Premiums	\$ 3,631	\$ 518	\$ 1,918	\$ 6,067
Net investment income	420	51	78	549
Fee income	115		4	119
Other revenues	8	6	14	28
Total operating revenues (1)	\$ 4,174	\$ 575	\$ 2,014	\$ 6,763
Operating income (1)	\$ 393	\$ 202	\$ 116	\$ 711
<b>2015</b>				
Premiums	\$ 3,609	\$ 524	\$ 1,798	\$ 5,931
Net investment income	487	57	88	632
Fee income	111		4	115
Other revenues	5	5	12	22
Total operating revenues (1)	\$ 4,212	\$ 586	\$ 1,902	\$ 6,700
Operating income (1)	\$ 543	\$ 151	\$ 174	\$ 868

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

(for the six months ended June 30, in millions)	Business and International Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
<b>2016</b>				
Premiums	\$ 7,230	\$ 1,026	\$ 3,792	\$ 12,048
Net investment income	835	103	155	1,093
Fee income	229		7	236
Other revenues	41	9	28	78
Total operating revenues (1)	\$ 8,335	\$ 1,138	\$ 3,982	\$ 13,455
Operating income (1)	\$ 869	\$ 346	\$ 255	\$ 1,470

<b>2015</b>					
Premiums	\$	7,229	\$	1,028	\$ 3,562 \$ 11,819
Net investment income		941		113	170 1,224
Fee income		222			7 229
Other revenues		13		10	24 47
Total operating revenues (1)	\$	8,405	\$	1,151	\$ 3,763 \$ 13,319
Operating income (1)	\$	1,058	\$	275	\$ 426 \$ 1,759

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(1) Operating revenues for reportable business segments exclude net realized investment gains (losses). Operating 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenue reconciliation</b>				
Earned premiums				
Business and International Insurance:				
Domestic:				
Workers compensation	\$ 987	\$ 957	\$ 1,968	\$ 1,919
Commercial automobile	503	477	994	945
Commercial property	442	440	879	880
General liability	485	469	967	937
Commercial multi-peril	786	779	1,568	1,553
Other	9	10	14	20
Total Domestic	3,212	3,132	6,390	6,254
International	419	477	840	975
Total Business and International Insurance	3,631	3,609	7,230	7,229
Bond & Specialty Insurance:				
Fidelity and surety	239	240	469	465
General liability	235	240	469	476
Other	44	44	88	87
Total Bond & Specialty Insurance	518	524	1,026	1,028
Personal Insurance:				
Automobile	974	863	1,910	1,699
Homeowners and Other	944	935	1,882	1,863
Total Personal Insurance	1,918	1,798	3,792	3,562
Total earned premiums	6,067	5,931	12,048	11,819
Net investment income	549	632	1,093	1,224
Fee income	119	115	236	229
Other revenues	28	22	78	47
Total operating revenues for reportable segments	6,763	6,700	13,455	13,319
Other revenues	3		6	
Net realized investment gains	19	10	10	20
Total consolidated revenues	\$ 6,785	\$ 6,710	\$ 13,471	\$ 13,339
<b>Income reconciliation, net of tax</b>				
Total operating income for reportable segments	\$ 711	\$ 868	\$ 1,470	\$ 1,759



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Interest Expense and Other (1)	(62)	(62)	(123)	(126)
Total operating income	<b>649</b>	806	<b>1,347</b>	1,633
Net realized investment gains	<b>15</b>	6	<b>8</b>	12
Total consolidated net income	<b>\$ 664</b>	\$ 812	<b>\$ 1,355</b>	\$ 1,645

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(1) The primary component of Interest Expense and Other was after-tax interest expense of \$60 million in each of the three months ended June 30, 2016 and 2015, and \$120 million in each of the six months ended June 30, 2016 and 2015.

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

## 2. SEGMENT INFORMATION, Continued

(in millions)	June 30, 2016	December 31, 2015
<b>Asset reconciliation:</b>		
Business and International Insurance	\$ 81,214	\$ 79,692
Bond & Specialty Insurance	7,745	7,360
Personal Insurance	13,109	12,748
Total assets for reportable segments	102,068	99,800
Other assets (1)	378	384
Total consolidated assets	\$ 102,446	\$ 100,184

(1) The primary component of other assets at June 30, 2016 was other intangible assets and the primary components at December 31, 2015 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 June 30, 2016, in millions)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,038	\$ 36	\$ 1	\$ 2,073
Obligations of states, municipalities and political subdivisions:				
Local general obligation	13,816	954	1	14,769
Revenue	10,270	787		11,057
State general obligation	1,958	124		2,082
Pre-refunded	5,490	234		5,724
Total obligations of states, municipalities and political subdivisions	31,534	2,099	1	33,632
Debt securities issued by foreign governments	1,745	56		1,801

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Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,702	132	1	1,833
All other corporate bonds	22,858	1,062	52	23,868
Redeemable preferred stock	98	6		104
Total	\$ 59,975	\$ 3,391	\$ 55	\$ 63,311

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

(at December 31, 2015, in millions)	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,202	\$ 8	\$ 16	\$ 2,194
Obligations of states, municipalities and political subdivisions:				
Local general obligation	12,744	577	3	13,318
Revenue	9,492	472	4	9,960
State general obligation	1,978	97	2	2,073
Pre-refunded	5,813	247		6,060
Total obligations of states, municipalities and political subdivisions	30,027	1,393	9	31,411
Debt securities issued by foreign governments	1,829	45	1	1,873
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,863	124	6	1,981
All other corporate bonds	22,854	523	288	23,089
Redeemable preferred stock	103	7		110
Total	\$ 58,878	\$ 2,100	\$ 320	\$ 60,658

Pre-refunded bonds of \$5.72 billion and \$6.06 billion at June 30, 2016 and December 31, 2015, respectively, were bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities, which were created to satisfy their responsibility for payments of principal and interest.

Proceeds from sales of fixed maturities classified as available for sale were \$739 million and \$1.23 billion during the six months ended June 30, 2016 and 2015, respectively. Gross gains of \$46 million and \$40 million and gross losses of \$8 million and \$3 million were realized on those sales during the six months ended June 30, 2016 and 2015, respectively.

**Equity Securities**

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

**Gross Unrealized****Fair**

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(at June 30, 2016, in millions)	Cost	Gains	Losses	Value
Public common stock	\$ 386	\$ 214	\$ 3	\$ 597
Non-redeemable preferred stock	139	23	7	155
Total	\$ 525	\$ 237	\$ 10	\$ 752

(at December 31, 2015, in millions)	Cost	Gains	Gross Unrealized Losses	Fair Value
Public common stock	\$ 386	\$ 164	\$ 7	\$ 543
Non-redeemable preferred stock	142	26	6	162
Total	\$ 528	\$ 190	\$ 13	\$ 705

Proceeds from sales of equity securities classified as available for sale were \$38 million and \$28 million during the six months ended June 30, 2016 and 2015, respectively. Gross gains of \$8 million and \$5 million and gross losses of \$2 million and \$3 million were realized on those sales during the six months ended June 30, 2016 and 2015, 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 June 30, 2016 and December 31, 2015, 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 2015 Annual Report.

(at June 30, 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	\$ 37	\$	\$ 10	\$ 1	\$ 47	\$ 1
Obligations of states, municipalities and political subdivisions	639	1	14		653	1
Debt securities issued by foreign governments	3				3	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	42		37	1	79	1
All other corporate bonds	779	12	720	40	1,499	52
Redeemable preferred stock	7				7	
Total fixed maturities	1,507	13	781	42	2,288	55
<b>Equity securities</b>						
Public common stock	24	2	34	1	58	3
Non-redeemable preferred stock	30	1	58	6	88	7
Total equity securities	54	3	92	7	146	10
Total	\$ 1,561	\$ 16	\$ 873	\$ 49	\$ 2,434	\$ 65

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

(at December 31, 2015, 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	\$ 1,820	\$ 15	\$ 28	\$ 1	\$ 1,848	\$ 16
Obligations of states, municipalities and political subdivisions	928	7	142	2	1,070	9
Debt securities issued by foreign governments	172	1			172	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	473	4	57	2	530	6
All other corporate bonds	7,725	197	710	91	8,435	288
Redeemable preferred stock	8				8	
<b>Total fixed maturities</b>	<b>11,126</b>	<b>224</b>	<b>937</b>	<b>96</b>	<b>12,063</b>	<b>320</b>
<b>Equity securities</b>						
Public common stock	48	6	33	1	81	7
Non-redeemable preferred stock	47	3	38	3	85	6
<b>Total equity securities</b>	<b>95</b>	<b>9</b>	<b>71</b>	<b>4</b>	<b>166</b>	<b>13</b>
<b>Total</b>	<b>\$ 11,221</b>	<b>\$ 233</b>	<b>\$ 1,008</b>	<b>\$ 100</b>	<b>\$ 12,229</b>	<b>\$ 333</b>

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 June 30, 2016 totaled \$11 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 in the consolidated statement of income were \$4 million and \$6 million for the three months ended June 30, 2016 and 2015, respectively, and \$22 million and \$9 million for the six months ended June 30, 2016 and 2015, respectively.

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For fixed maturities held at June 30, 2016 and 2015, the cumulative amount of credit losses recognized in the consolidated statement of income from other-than-temporary impairments (OTTI) was \$88 million at both dates, on investments for which a portion of the OTTI was recognized in other comprehensive income (loss). 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 six months ended June 30, 2016 and 2015 from that disclosed in note 3 of notes to the consolidated financial statements in the Company's 2015 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 June 30, 2016 and December 31, 2015, the Company had \$400 million notional value of open U.S. Treasury futures contracts. Net realized investment gains and losses related to U.S. Treasury futures contracts in the three months and six months ended June 30, 2016 and 2015 were not significant.



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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 June 30, 2016 and December 31, 2015.

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 \$96 million and \$101 million at June 30, 2016 and December 31, 2015, 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 \$87 million and \$117 million at June 30, 2016 and December 31, 2015, 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 2015 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 at June 30, 2016 and December 31, 2015. 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 June 30, 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	\$ 2,073	\$ 2,073	\$	\$
Obligations of states, municipalities and political subdivisions	33,632	11	33,608	13
Debt securities issued by foreign governments	1,801		1,801	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,833		1,833	
All other corporate bonds	23,868	3	23,702	163
Redeemable preferred stock	104	3	94	7
<b>Total fixed maturities</b>	<b>63,311</b>	<b>2,090</b>	<b>61,038</b>	<b>183</b>
<b>Equity securities</b>				
Public common stock	597	597		
Non-redeemable preferred stock	155	66	89	
<b>Total equity securities</b>	<b>752</b>	<b>663</b>	<b>89</b>	
<b>Other investments</b>	<b>61</b>	<b>17</b>		<b>44</b>
<b>Total</b>	<b>\$ 64,124</b>	<b>\$ 2,770</b>	<b>\$ 61,127</b>	<b>\$ 227</b>

(at December 31, 2015, 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	\$ 2,194	\$ 2,194	\$	\$
Obligations of states, municipalities and political subdivisions	31,411		31,398	13
Debt securities issued by foreign governments	1,873		1,873	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,981		1,957	24
All other corporate bonds	23,089		22,915	174
Redeemable preferred stock	110	3	100	7
<b>Total fixed maturities</b>	<b>60,658</b>	<b>2,197</b>	<b>58,243</b>	<b>218</b>
<b>Equity securities</b>				
Public common stock	543	543		
Non-redeemable preferred stock	162	55	107	
<b>Total equity securities</b>	<b>705</b>	<b>598</b>	<b>107</b>	

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<b>Other investments</b>		56		18			38
<b>Total</b>	\$	61,419	\$	2,813	\$	58,350	\$ 256

During the six months ended June 30, 2016 and the year ended December 31, 2015, 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 six months ended June 30, 2016 or the year ended December 31, 2015.

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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 June 30, 2016, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Short-term securities	\$ 3,988	\$ 3,988	\$ 792	\$ 3,151	\$ 45
<b>Financial liabilities:</b>					
Debt	\$ 6,336	\$ 7,743	\$	\$ 7,743	\$
Commercial paper	\$ 100	\$ 100	\$	\$ 100	\$

(at December 31, 2015, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Short-term securities	\$ 4,671	\$ 4,671	\$ 1,685	\$ 2,958	\$ 28
<b>Financial liabilities:</b>					
Debt	\$ 6,244	\$ 7,180	\$	\$ 7,180	\$
Commercial paper	\$ 100	\$ 100	\$	\$ 100	\$

The Company utilized a pricing service to estimate fair value for approximately 99% of short-term securities at both June 30, 2016 and December 31, 2015. 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 2015 Annual Report.

The Company utilized a pricing service to estimate fair value for 100% of its debt, including commercial paper, at June 30, 2016 and December 31, 2015.

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the six months ended June 30, 2016 or twelve months ended December 31, 2015.

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

**Goodwill**

The following table presents the carrying amount of the Company's goodwill by segment at June 30, 2016 and December 31, 2015:

(in millions)	June 30, 2016	December 31, 2015
Business and International Insurance (1)	\$ 2,454	\$ 2,439
Bond & Specialty Insurance	496	496
Personal Insurance	612	612
Other	26	26
<b>Total</b>	<b>\$ 3,588</b>	<b>\$ 3,573</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 June 30, 2016 and December 31, 2015:

(at June 30, 2016, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Subject to amortization (1)	\$ 210	\$ 153	\$ 57
Not subject to amortization	217		217
Total	\$ 427	\$ 153	\$ 274

(at December 31, 2015, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Subject to amortization (1)	\$ 210	\$ 148	\$ 62
Not subject to amortization	217		217
Total	\$ 427	\$ 148	\$ 279

(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 \$2 million and \$9 million for the three months ended June 30, 2016 and 2015, respectively, and \$5 million and \$20 million for the six months ended June 30, 2016 and 2015, respectively. Intangible asset amortization expense is estimated to be \$5 million for the remainder of 2016, \$9 million in 2017, \$8 million in 2018, \$7 million in 2019 and \$5 million in 2020.

**6. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME**

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The following table presents the changes in the Company's accumulated other comprehensive income (AOCI) for the six months ended June 30, 2016.

(in millions)	Changes in Net Unrealized Gains on Investment Securities Having No Credit Losses Recognized in the Consolidated Statement of Income	Changes in Net Unrealized Gains on Investment Securities Having Credit Losses Recognized in the Consolidated Statement of Income	Net Benefit Plan Assets and Obligations Recognized in Shareholders' Equity	Net Unrealized Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance, December 31, 2015</b>	\$ 1,100	\$ 189	\$ (713)	\$ (733)	\$ (157)
Other comprehensive income (OCI) before reclassifications	1,064	3	3	47	1,117
Amounts reclassified from AOCI	(23)	8	20		5
Net OCI, current period	1,041	11	23	47	1,122
<b>Balance, June 30, 2016</b>	\$ 2,141	\$ 200	\$ (690)	\$ (686)	\$ 965



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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

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

The following table presents the pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for the three months and six months ended June 30, 2016 and 2015.

( in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Changes in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	\$ 879	\$ (1,065)	\$ 1,593	\$ (896)
Income tax expense (benefit)	305	(368)	552	(312)
Net of taxes	574	(697)	1,041	(584)
Having credit losses recognized in the consolidated statement of income	12	(5)	17	(10)
Income tax expense (benefit)	4	(2)	6	(4)
Net of taxes	8	(3)	11	(6)
Net changes in benefit plan assets and obligations	18	23	34	47
Income tax expense	6	8	11	16
Net of taxes	12	15	23	31
Net changes in unrealized foreign currency translation	(35)	94	68	(180)
Income tax expense (benefit)	8	9	21	(28)
Net of taxes	(43)	85	47	(152)
Total other comprehensive income (loss)	874	(953)	1,712	(1,039)
Total income tax expense (benefit)	323	(353)	590	(328)
<b>Total other comprehensive income (loss), net of taxes</b>	<b>\$ 551</b>	<b>\$ (600)</b>	<b>\$ 1,122</b>	<b>\$ (711)</b>

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## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

## 6. 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 and six months ended June 30, 2016 and 2015.

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Reclassification adjustments related to unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income (1)	\$ (24)	\$ (17)	\$ (35)	\$ (35)
Income tax expense (2)	(8)	(6)	(12)	(12)
Net of taxes	(16)	(11)	(23)	(23)
Having credit losses recognized in the consolidated statement of income (1)				
Income tax benefit (2)	1	2	12	2
Net of taxes	1	2	8	2
Reclassification adjustment related to benefit plan assets and obligations (3)				
Income tax benefit (2)	15	24	31	47
Net of taxes	6	9	11	17
Net of taxes	9	15	20	30
Reclassification adjustment related to foreign currency translation (1)				
Income tax benefit (2)				
Net of taxes				
Total reclassifications	(8)	9	8	14
Total income tax (expense) benefit	(2)	3	3	5
<b>Total reclassifications, net of taxes</b>	<b>\$ (6)</b>	<b>\$ 6</b>	<b>\$ 5</b>	<b>\$ 9</b>

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- (1) (Increases) decreases net realized investment gains on the consolidated statement of income.
- (2) (Increases) decreases income tax expense on the consolidated statement of income.

- (3) Increases (decreases) general and administrative expenses on the consolidated statement of income.

**7. DEBT**

*Debt Issuance.* On May 11, 2016, the Company issued \$500 million aggregate principal amount of 3.75% senior notes that will mature on May 15, 2046. The net proceeds of the issuance, after the deduction of underwriting and other expenses, totaled approximately \$491 million. Interest on the senior notes is payable semi-annually in arrears on May 15 and November 15, commencing on November 15, 2016. Prior to November 15, 2045, the senior notes may be redeemed, in whole or in part, at the Company's option, at any time or from time to time, at a redemption price equal to the greater of (a) 100% of the principal amount of any senior notes to be redeemed or (b) the sum of the present values of the remaining scheduled payments of principal and interest on any senior notes to be redeemed (exclusive of interest accrued to the date of

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redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current Treasury rate (as defined in the senior notes), plus 20 basis points. On or after November 15, 2045, the senior notes may be redeemed, in whole or in part, at the Company's option, at any time or from time to time, at a redemption price equal to 100% of the principal amount of any senior notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

*Debt Payment.* On June 20, 2016, the Company's \$400 million, 6.25% senior notes matured and were fully paid.

**8. COMMON SHARE REPURCHASES**

During the three months and six months ended June 30, 2016, the Company repurchased 4.9 million and 10.0 million shares, respectively, under its share repurchase authorization, for a total cost of \$550 million and \$1.10 billion, respectively. The average cost per share repurchased was \$112.12 and \$110.26, respectively. At June 30, 2016, the Company had \$2.23 billion of capacity remaining under its share repurchase authorization. In addition, the Company acquired 5,146 and 0.5 million shares for a total cost of \$0.6 million and \$59 million during the three months and six months ended June 30, 2016, respectively, 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 exercise price of certain stock options that were exercised.

**9. EARNINGS PER SHARE**

The following is a reconciliation of the net 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Basic and Diluted</b>				
Net income, as reported	\$ 664	\$ 812	\$ 1,355	\$ 1,645

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Participating share-based awards allocated income	(5)	(6)	(10)	(12)
Net income available to common shareholders basic and diluted	\$ 659	\$ 806	\$ 1,345	\$ 1,633

**Common Shares**

**Basic**

Weighted average shares outstanding	290.1	314.8	292.1	317.7
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**Diluted**

Weighted average shares outstanding	290.1	314.8	292.1	317.7
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Weighted average effects of dilutive securities stock options and performance shares	3.5	3.2	3.5	3.5
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Total	293.6	318.0	295.6	321.2
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**Net Income per Common Share**

Basic	\$ 2.27	\$ 2.56	\$ 4.60	\$ 5.14
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Diluted	\$ 2.24	\$ 2.53	\$ 4.55	\$ 5.08
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The following information relates to fully vested stock option awards at June 30, 2016:

<b>Stock Options</b>	<b>Number</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Life Remaining</b>	<b>Aggregate Intrinsic Value (\$ in millions)</b>
Vested at end of period (1)	<b>8,006,375</b>	<b>\$ 78.85</b>	<b>6.5 years</b>	<b>\$ 322</b>
Exercisable at end of period	<b>4,406,788</b>	<b>\$ 62.60</b>	<b>4.8 years</b>	<b>\$ 249</b>

(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 \$32 million and \$31 million for the three months ended June 30, 2016 and 2015, respectively, and \$82 million and \$78 million for the six months ended June 30, 2016 and 2015, respectively. The related tax benefits recognized in the consolidated statement of income were \$11 million and \$10 million for the three months ended June 30, 2016 and 2015, respectively, and \$28 million and \$26 million for the six months ended June 30, 2016 and 2015, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at June 30, 2016 was \$184 million, which is expected to be recognized over a weighted-average period of 2.0 years.

**11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS**

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

<b>(for the three months ended June 30, in millions)</b>	<b>Pension Plans</b>		<b>Postretirement Benefit Plans</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>

<b>Net Periodic Benefit Cost:</b>						
Service cost	\$	30	\$	32	\$	\$
Interest cost on benefit obligation		31		36	2	2
Expected return on plan assets		(58)		(57)		
Settlement		1				
Amortization of unrecognized:						
Prior service benefit					(1)	
Net actuarial loss		16		24		
Net periodic benefit cost	\$	20	\$	35	\$	1 \$ 2

(for the six months ended June 30, in millions)	Pension Plans		Postretirement Benefit Plans			
	2016	2015	2016	2015		
<b>Net Periodic Benefit Cost:</b>						
Service cost	\$	59	\$	65	\$	\$
Interest cost on benefit obligation		61		72	4	5
Expected return on plan assets		(115)		(115)		
Settlement		1				
Amortization of unrecognized:						
Prior service benefit					(2)	(1)
Net actuarial loss		33		48		
Net periodic benefit cost	\$	39	\$	70	\$	2 \$ 4

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

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

**11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS, Continued**

In first quarter 2016, the Company began to use a full yield curve approach in the estimation of the service and interest cost components of net periodic benefit costs for its qualified and nonqualified domestic pension plans and its domestic postretirement benefit plans. The full yield curve approach applies the specific spot rates along the yield curve that the Company used to determine its projected benefit obligation at the beginning of the year to the projected cash flows related to service and interest costs. Previously, the Company estimated these service and interest cost components by applying a single weighted-average discount rate derived from this yield curve. This change was made to provide a better estimate of the service and interest cost components of net periodic benefit costs, consistent with the methodology used to estimate the projected benefit obligation for each of the benefit plans.

This change did not affect the measurement of the Company's total benefit obligations, as the change in service cost and interest cost is completely offset in the actuarial (gain) loss reported for the period. The change reduced the service and interest cost components of net periodic benefit costs by \$2 million and \$7 million, respectively, for the three months ended June 30, 2016, and by \$3 million and \$15 million, respectively, for the six months ended June 30, 2016. The weighted average discount rates that are being used to measure service and interest costs during 2016 are 4.77% and 3.64%, respectively, for the domestic qualified pension plan, 4.53% and 3.47%, respectively, for the domestic nonqualified pension plan and 0.00% and 3.53%, respectively, for the domestic postretirement benefit plan. The discount rate associated with the service cost component of the domestic postretirement benefit plan is zero as it is a closed plan and all participants are fully vested. Under the Company's prior estimation approach, the weighted average discount rate for both the service and interest cost components would have been 4.50% for the domestic qualified pension plan, 4.37% for the domestic nonqualified pension plan and 4.35% for the domestic postretirement benefit plan. The Company accounted for this change as a change in estimate, and accordingly, is recognizing the effect prospectively beginning in 2016.

**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 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 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.

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

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

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

**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 American Re-Insurance Company, a subsidiary of Munich Re, and three other reinsurers—two of which are subsidiaries of the same company, while the other has since settled with the Company. That summary judgment was largely affirmed on appeal, but the Court of Appeals remanded the case for trial on two discrete issues. On June 3, 2015, the trial court entered orders on pretrial motions filed by all parties and ruled in the Company's favor that the issues for trial will be limited to the two discrete issues remanded by the Court of Appeals. The reinsurers' appeals of the trial court's orders were unsuccessful. On March 24, 2016, the reinsurers filed a motion to change the venue, which the Company has opposed. On April 26, 2016, the trial court denied the reinsurers' motion to change venue, and on June 10, 2016, the reinsurers appealed that decision to the Appellate Division, First Department. The previously scheduled trial date was postponed by the trial court, and there is presently no scheduled date for trial. At June 30, 2016, the claim totaled \$519 million, comprising \$238 million of reinsurance recoverable plus interest amounting to \$281 million as of that date. Interest will continue to accrue at an annual rate of 9% until the claim is paid, though the reinsurers contested that interest is owed in a brief filed on May 25, 2016. The \$238 million of reinsurance recoverable owed to the Company under the terms of the disputed reinsurance contract has been reported as part of reinsurance recoverables in the Company's consolidated balance sheet. The interest that would be owed as part of any judgment ultimately entered in favor of the Company 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 \$1.69 billion and \$1.71 billion at June 30, 2016 and December 31, 2015, respectively.

**Guarantees**

The maximum amount of the Company's contingent obligation for indemnifications related to the sale of businesses that are quantifiable was \$391 million at June 30, 2016, of which \$2 million was recognized on the balance sheet at that date.

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 June 30, 2016, 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 June 30, 2016, 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 2015 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 June 30, 2016.

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 June 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Revenues</b>					
Premiums	\$ 4,161	\$ 1,906	\$	\$	\$ 6,067
Net investment income	377	168	4		549
Fee income	119				119
Net realized investment gains (losses) (1)	(1)	20			19
Other revenues	33	1		(3)	31
<b>Total revenues</b>	<b>4,689</b>	<b>2,095</b>	<b>4</b>	<b>(3)</b>	<b>6,785</b>
<b>Claims and expenses</b>					
Claims and claim adjustment expenses	2,575	1,187			3,762
Amortization of deferred acquisition costs	666	323			989
General and administrative expenses	743	313	1	(3)	1,054
Interest expense	12		81		93
<b>Total claims and expenses</b>	<b>3,996</b>	<b>1,823</b>	<b>82</b>	<b>(3)</b>	<b>5,898</b>
<b>Income (loss) before income taxes</b>	<b>693</b>	<b>272</b>	<b>(78)</b>		<b>887</b>
Income tax expense (benefit)	191	69	(37)		223
Net income of subsidiaries			705	(705)	
<b>Net income</b>	<b>\$ 502</b>	<b>\$ 203</b>	<b>\$ 664</b>	<b>\$ (705)</b>	<b>\$ 664</b>

(1) Total other-than-temporary impairment (OTTI) for the three months ended June 30, 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 Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	\$ (3)	\$ (1)	\$	\$	\$ (4)
OTTI losses recognized in net realized investment gains (losses)	\$ (3)	\$ (1)	\$	\$	\$ (4)

OTTI gains (losses) recognized in OCI	\$	\$	\$	\$	\$
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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 June 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Revenues</b>					
Premiums	\$ 4,044	\$ 1,887	\$	\$	\$ 5,931
Net investment income	424	206	2		632
Fee income	115				115
Net realized investment gains (losses) (1)	17	(7)			10
Other revenues	19	3			22
<b>Total revenues</b>	<b>4,619</b>	<b>2,089</b>	<b>2</b>		<b>6,710</b>
<b>Claims and expenses</b>					
Claims and claim adjustment expenses	2,409	1,138			3,547
Amortization of deferred acquisition costs	651	312			963
General and administrative expenses	721	308	3		1,032
Interest expense	12		80		92
<b>Total claims and expenses</b>	<b>3,793</b>	<b>1,758</b>	<b>83</b>		<b>5,634</b>
<b>Income (loss) before income taxes</b>	<b>826</b>	<b>331</b>	<b>(81)</b>		<b>1,076</b>
Income tax expense (benefit)	198	86	(20)		264
Net income of subsidiaries			873	(873)	
<b>Net income</b>	<b>\$ 628</b>	<b>\$ 245</b>	<b>\$ 812</b>	<b>\$ (873)</b>	<b>\$ 812</b>

(1) Total other-than-temporary impairment (OTTI) for the three months ended June 30, 2015, 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 Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	\$ (7)	\$ (1)	\$	\$	\$ (8)
OTTI losses recognized in net realized investment gains (losses)	\$ (5)	\$ (1)	\$	\$	\$ (6)

OTTI losses recognized in OCI	\$	(2)	\$	\$	\$	(2)
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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 six months ended June 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Revenues</b>					
Premiums	\$ 8,246	\$ 3,802	\$	\$	\$ 12,048
Net investment income	753	334	6		1,093
Fee income	236				236
Net realized investment gains (losses) (1)	(17)	27			10
Other revenues	81	17		(14)	84
<b>Total revenues</b>	<b>9,299</b>	<b>4,180</b>	<b>6</b>	<b>(14)</b>	<b>13,471</b>
<b>Claims and expenses</b>					
Claims and claim adjustment expenses	5,095	2,379			7,474
Amortization of deferred acquisition costs	1,316	644			1,960
General and administrative expenses	1,447	611	5	(14)	2,049
Interest expense	24		160		184
<b>Total claims and expenses</b>	<b>7,882</b>	<b>3,634</b>	<b>165</b>	<b>(14)</b>	<b>11,667</b>
<b>Income (loss) before income taxes</b>	<b>1,417</b>	<b>546</b>	<b>(159)</b>		<b>1,804</b>
Income tax expense (benefit)	390	138	(79)		449
Net income of subsidiaries			1,435	(1,435)	
<b>Net income</b>	<b>\$ 1,027</b>	<b>\$ 408</b>	<b>\$ 1,355</b>	<b>\$ (1,435)</b>	<b>\$ 1,355</b>

(1) Total other-than-temporary impairment (OTTI) for the six months ended June 30, 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 Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	\$ (17)	\$ (15)	\$	\$	\$ (32)
OTTI losses recognized in net realized investment gains (losses)	\$ (12)	\$ (10)	\$	\$	\$ (22)



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 INCOME (Unaudited)

For the six months ended June 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Revenues</b>					
Premiums	\$ 8,040	\$ 3,779	\$	\$	\$ 11,819
Net investment income	835	386	3		1,224
Fee income	229				229
Net realized investment gains (1)	19		1		20
Other revenues	40	7			47
<b>Total revenues</b>	<b>9,163</b>	<b>4,172</b>	<b>4</b>		<b>13,339</b>
<b>Claims and expenses</b>					
Claims and claim adjustment expenses	4,718	2,260			6,978
Amortization of deferred acquisition costs	1,293	633			1,926
General and administrative expenses	1,419	600	8		2,027
Interest expense	24		160		184
<b>Total claims and expenses</b>	<b>7,454</b>	<b>3,493</b>	<b>168</b>		<b>11,115</b>
<b>Income (loss) before income taxes</b>	<b>1,709</b>	<b>679</b>	<b>(164)</b>		<b>2,224</b>
Income tax expense (benefit)	449	179	(49)		579
Net income of subsidiaries			1,760	(1,760)	
<b>Net income</b>	<b>\$ 1,260</b>	<b>\$ 500</b>	<b>\$ 1,645</b>	<b>\$ (1,760)</b>	<b>\$ 1,645</b>

(1) Total other-than-temporary impairment (OTTI) for the six months ended June 30, 2015, and the amounts comprising total OTTI that were recognized in net realized investment gains and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	\$ (8)	\$ (4)	\$	\$	\$ (12)
OTTI losses recognized in net realized investment gains	\$ (6)	\$ (3)	\$	\$	\$ (9)

OTTI losses recognized in OCI	\$	(2)	\$	(1)	\$	\$	(3)
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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 June 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Net income</b>	\$ 502	\$ 203	\$ 664	\$ (705)	\$ 664
<b>Other comprehensive income (loss):</b>					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	570	306	3		879
Having credit losses recognized in the consolidated statement of income	6	6			12
Net changes in benefit plan assets and obligations	18	19	(19)		18
Net changes in unrealized foreign currency translation	25	(60)			(35)
<b>Other comprehensive income (loss) before income taxes and other comprehensive income of subsidiaries</b>	619	271	(16)		874
Income tax expense (benefit)	216	113	(6)		323
<b>Other comprehensive income (loss), net of taxes, before other comprehensive income of subsidiaries</b>	403	158	(10)		551
Other comprehensive income of subsidiaries			561	(561)	
<b>Other comprehensive income</b>	403	158	551	(561)	551
<b>Comprehensive income</b>	\$ 905	\$ 361	\$ 1,215	\$ (1,266)	\$ 1,215

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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 June 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Net income</b>	\$ 628	\$ 245	\$ 812	\$ (873)	\$ 812
<b>Other comprehensive income (loss):</b>					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(719)	(345)	(1)		(1,065)
Having credit losses recognized in the consolidated statement of income	(5)				(5)
Net changes in benefit plan assets and obligations	1		22		23
Net changes in unrealized foreign currency translation	34	60			94
<b>Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries</b>	(689)	(285)	21		(953)
Income tax expense (benefit)	(246)	(115)	8		(353)
<b>Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries</b>	(443)	(170)	13		(600)
Other comprehensive loss of subsidiaries			(613)	613	
<b>Other comprehensive loss</b>	(443)	(170)	(600)	613	(600)
<b>Comprehensive income</b>	\$ 185	\$ 75	\$ 212	\$ (260)	\$ 212

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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 six months ended June 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Net income</b>	\$ 1,027	\$ 408	\$ 1,355	\$ (1,435)	\$ 1,355
<b>Other comprehensive income (loss):</b>					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	1,055	534	4		1,593
Having credit losses recognized in the consolidated statement of income	8	9			17
Net changes in benefit plan assets and obligations	18	20	(4)		34
Net changes in unrealized foreign currency translation	119	(51)			68
<b>Other comprehensive income before income taxes and other comprehensive income of subsidiaries</b>	<b>1,200</b>	<b>512</b>			<b>1,712</b>
Income tax expense	397	192	1		590
<b>Other comprehensive income (loss), net of taxes, before other comprehensive income of subsidiaries</b>	<b>803</b>	<b>320</b>	<b>(1)</b>		<b>1,122</b>
Other comprehensive income of subsidiaries			1,123	(1,123)	
<b>Other comprehensive income</b>	<b>803</b>	<b>320</b>	<b>1,122</b>	<b>(1,123)</b>	<b>1,122</b>
<b>Comprehensive income</b>	<b>\$ 1,830</b>	<b>\$ 728</b>	<b>\$ 2,477</b>	<b>\$ (2,558)</b>	<b>\$ 2,477</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 COMPREHENSIVE INCOME (Unaudited)

For the six months ended June 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Net income</b>	\$ 1,260	\$ 500	\$ 1,645	\$ (1,760)	\$ 1,645
<b>Other comprehensive income (loss):</b>					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(585)	(312)	1		(896)
Having credit losses recognized in the consolidated statement of income	(9)	(1)			(10)
Net changes in benefit plan assets and obligations	1	1	45		47
Net changes in unrealized foreign currency translation	(145)	(35)			(180)
<b>Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries</b>	(738)	(347)	46		(1,039)
Income tax expense (benefit)	(232)	(112)	16		(328)
<b>Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries</b>	(506)	(235)	30		(711)
Other comprehensive loss of subsidiaries			(741)	741	
<b>Other comprehensive loss</b>	(506)	(235)	(711)	741	(711)
<b>Comprehensive income</b>	\$ 754	\$ 265	\$ 934	\$ (1,019)	\$ 934

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At June 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Assets</b>					
Fixed maturities, available for sale, at fair value (amortized cost \$59,975)	\$ 43,859	\$ 19,403	\$ 49	\$	\$ 63,311
Equity securities, available for sale, at fair value (cost \$525)	194	412	146		752
Real estate investments	55	874			929
Short-term securities	1,754	537	1,697		3,988
Other investments	2,594	895	1		3,490
<b>Total investments</b>	<b>48,456</b>	<b>22,121</b>	<b>1,893</b>		<b>72,470</b>
Cash	121	141	3		265
Investment income accrued	441	182	4		627
Premiums receivable	4,722	2,292			7,014
Reinsurance recoverables	5,928	2,675			8,603
Ceded unearned premiums	649	77			726
Deferred acquisition costs	1,753	201			1,954
Contractholder receivables	3,570	971			4,541
Goodwill	2,584	1,004			3,588
Other intangible assets	203	71			274
Investment in subsidiaries			28,755	(28,755)	
Other assets	2,106	(52)	330		2,384
<b>Total assets</b>	<b>\$ 70,533</b>	<b>\$ 29,683</b>	<b>\$ 30,985</b>	<b>\$ (28,755)</b>	<b>\$ 102,446</b>
<b>Liabilities</b>					
Claims and claim adjustment expense reserves	\$ 32,096	\$ 15,857		\$	\$ 47,953
Unearned premium reserves	8,708	3,812			12,520
Contractholder payables	3,570	971			4,541
Payables for reinsurance premiums	227	174			401
Deferred taxes	330	118	(78)		370
Debt	693		5,743		6,436
Other liabilities	4,188	707	616		5,511
<b>Total liabilities</b>	<b>49,812</b>	<b>21,639</b>	<b>6,281</b>		<b>77,732</b>
<b>Shareholders equity</b>		390	22,349	(390)	22,349



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

Additional paid-in capital	11,634	6,499		(18,133)	
Retained earnings	7,890	744	30,911	(8,624)	30,921
Accumulated other comprehensive income	1,197	411	965	(1,608)	965
Treasury stock, at cost (478.1 shares)			(29,521)		(29,521)
<b>Total shareholders equity</b>	<b>20,721</b>	<b>8,044</b>	<b>24,704</b>	<b>(28,755)</b>	<b>24,714</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 70,533</b>	<b>\$ 29,683</b>	<b>\$ 30,985</b>	<b>\$ (28,755)</b>	<b>\$ 102,446</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, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Assets</b>					
Fixed maturities, available for sale, at fair value (amortized cost \$58,878)	\$ 42,289	\$ 18,323	\$ 46	\$	\$ 60,658
Equity securities, available for sale, at fair value (cost \$528)	189	375	141		705
Real estate investments	56	933			989
Short-term securities	1,947	1,178	1,546		4,671
Other investments	2,516	930	1		3,447
<b>Total investments</b>	<b>46,997</b>	<b>21,739</b>	<b>1,734</b>		<b>70,470</b>
Cash	225	153	2		380
Investment income accrued	453	185	4		642
Premiums receivable	4,336	2,101			6,437
Reinsurance recoverables	5,849	3,061			8,910
Ceded unearned premiums	610	46			656
Deferred acquisition costs	1,660	189			1,849
Deferred taxes	178	83	35		296
Contractholder receivables	3,387	987			4,374
Goodwill	2,573	1,000			3,573
Other intangible assets	203	76			279
Investment in subsidiaries			27,573	(27,573)	
Other assets	1,958	344	16		2,318
<b>Total assets</b>	<b>\$ 68,429</b>	<b>\$ 29,964</b>	<b>\$ 29,364</b>	<b>\$ (27,573)</b>	<b>\$ 100,184</b>
<b>Liabilities</b>					
Claims and claim adjustment expense reserves	\$ 31,965	\$ 16,330	\$	\$	\$ 48,295
Unearned premium reserves	8,335	3,636			11,971
Contractholder payables	3,387	987			4,374
Payables for reinsurance premiums	175	121			296
Debt	693		5,651		6,344
Other liabilities	3,958	1,221	127		5,306
<b>Total liabilities</b>	<b>48,513</b>	<b>22,295</b>	<b>5,778</b>		<b>76,586</b>
<b>Shareholders equity</b>		390	22,172	(390)	22,172

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

Additional paid-in capital	11,634	6,499		(18,133)	
Retained earnings	7,888	688	29,933	(8,564)	29,945
Accumulated other comprehensive income (loss)	394	92	(157)	(486)	(157)
Treasury stock, at cost (467.6 shares)			(28,362)		(28,362)
<b>Total shareholders equity</b>	<b>19,916</b>	<b>7,669</b>	<b>23,586</b>	<b>(27,573)</b>	<b>23,598</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 68,429</b>	<b>\$ 29,964</b>	<b>\$ 29,364</b>	<b>\$ (27,573)</b>	<b>\$ 100,184</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 six months ended June 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Cash flows from operating activities</b>					
Net income	\$ 1,027	\$ 408	\$ 1,355	\$ (1,435)	\$ 1,355
Net adjustments to reconcile net income to net cash provided by (used in) operating activities	(17)	(222)	116	61	(62)
<b>Net cash provided by operating activities</b>	<b>1,010</b>	<b>186</b>	<b>1,471</b>	<b>(1,374)</b>	<b>1,293</b>
<b>Cash flows from investing activities</b>					
Proceeds from maturities of fixed maturities	2,728	1,040	5		3,773
Proceeds from sales of investments:					
Fixed maturities	385	352	2		739
Equity securities	10	28			38
Real estate investments		69			69
Other investments	233	110			343
Purchases of investments:					
Fixed maturities	(3,588)	(2,108)	(9)		(5,705)
Equity securities	(5)	(19)	(2)		(26)
Real estate investments		(20)			(20)
Other investments	(221)	(69)			(290)
Net (purchases) sales of short-term securities	193	639	(151)		681
Securities transactions in course of settlement	325	137	(1)		461
Other	(151)	(3)			(154)
<b>Net cash provided by (used in) investing activities</b>	<b>(91)</b>	<b>156</b>	<b>(156)</b>		<b>(91)</b>
<b>Cash flows from financing activities</b>					
Treasury stock acquired share repurchase authorization			(1,100)		(1,100)
Treasury stock acquired net employee share-based compensation			(59)		(59)
Dividends paid to shareholders			(375)		(375)
Payment of debt			(400)		(400)
Issuance of debt			491		491

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Issuance of common stock options				129				129
Dividends paid to parent company	(1,025)	(349)				1,374		
<b>Net cash used in financing activities</b>	<b>(1,025)</b>	<b>(349)</b>		<b>(1,314)</b>		<b>1,374</b>		<b>(1,314)</b>
Effect of exchange rate changes on cash	2	(5)						(3)
Net increase (decrease) in cash	(104)	(12)		1				(115)
Cash at beginning of year	225	153		2				380
<b>Cash at end of period</b>	<b>\$ 121</b>	<b>\$ 141</b>	<b>\$ 3</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>265</b>
<b>Supplemental disclosure of cash flow information</b>								
Income taxes paid (received)	\$ 398	\$ 142	\$ (73)	\$	\$	\$	\$	467
Interest paid	\$ 24	\$	\$ 156	\$	\$	\$	\$	180

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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 six months ended June 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Cash flows from operating activities</b>					
Net income	\$ 1,260	\$ 500	\$ 1,645	\$ (1,760)	\$ 1,645
Net adjustments to reconcile net income to net cash provided by (used in) operating activities	(410)	(520)	182	(22)	(770)
<b>Net cash provided by (used in) operating activities</b>	<b>850</b>	<b>(20)</b>	<b>1,827</b>	<b>(1,782)</b>	<b>875</b>
<b>Cash flows from investing activities</b>					
Proceeds from maturities of fixed maturities	3,604	1,707	3		5,314
Proceeds from sales of investments:					
Fixed maturities	710	516			1,226
Equity securities	11	17			28
Real estate investments		10			10
Other investments	244	110			354
Purchases of investments:					
Fixed maturities	(4,352)	(1,869)	(18)		(6,239)
Equity securities	(2)	(19)	(1)		(22)
Real estate investments		(69)			(69)
Other investments	(222)	(53)			(275)
Net (purchases) sales of short-term securities	327	224	(118)		433
Securities transactions in course of settlement	190	(7)			183
Other	(175)	(3)			(178)
<b>Net cash provided by (used in) investing activities</b>	<b>335</b>	<b>564</b>	<b>(134)</b>		<b>765</b>
<b>Cash flows from financing activities</b>					
Treasury stock acquired share repurchase authorization			(1,400)		(1,400)
Treasury stock acquired net employee share-based compensation			(72)		(72)
Dividends paid to shareholders			(369)		(369)
			117		117

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Issuance of common stock					
employee share options					
Excess tax benefits from share-based payment arrangements			31		31
Dividends paid to parent company	(1,222)	(560)		1,782	
<b>Net cash used in financing activities</b>	<b>(1,222)</b>	<b>(560)</b>	<b>(1,693)</b>	<b>1,782</b>	<b>(1,693)</b>
Effect of exchange rate changes on cash		(4)			(4)
Net decrease in cash	(37)	(20)			(57)
Cash at beginning of year	221	151	2		374
<b>Cash at end of period</b>	<b>\$ 184</b>	<b>\$ 131</b>	<b>\$ 2</b>	<b>\$</b>	<b>\$ 317</b>
<b>Supplemental disclosure of cash flow information</b>					
Income taxes paid (received)	\$ 534	\$ 197	\$ (134)	\$	\$ 597
Interest paid	\$ 24	\$	\$ 159	\$	\$ 183

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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**

**2016 Second Quarter Consolidated Results of Operations**

- Net income of \$664 million, or \$2.27 per share basic and \$2.24 per share diluted
- Net earned premiums of \$6.07 billion
- Catastrophe losses of \$333 million (\$222 million after-tax)
- Net favorable prior year reserve development of \$288 million (\$192 million after-tax)
- Combined ratio of 93.1%
- Net investment income of \$549 million (\$442 million after-tax)
- Operating cash flows of \$443 million

**2016 Second Quarter Consolidated Financial Condition**

- Total investments of \$72.47 billion; fixed maturities and short-term securities comprised 93% of total investments
- Total assets of \$102.45 billion
- Total debt of \$6.44 billion, resulting in a debt-to-total capital ratio of 20.7% (22.3% excluding net unrealized investment gains, net of tax)



- Repurchased 4.9 million common shares for total cost of \$550 million and paid \$195 million of dividends to shareholders
- Shareholders' equity of \$24.71 billion
- Net unrealized investment gains of \$3.59 billion (\$2.34 billion after-tax)
- Book value per common share of \$85.73
- Holding company liquidity of \$1.75 billion

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(in millions, except ratio and per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues</b>				
Premiums	\$ 6,067	\$ 5,931	\$ 12,048	\$ 11,819
Net investment income	549	632	1,093	1,224
Fee income	119	115	236	229
Net realized investment gains	19	10	10	20
Other revenues	31	22	84	47
<b>Total revenues</b>	<b>6,785</b>	<b>6,710</b>	<b>13,471</b>	<b>13,339</b>
<b>Claims and expenses</b>				
Claims and claim adjustment expenses	3,762	3,547	7,474	6,978
Amortization of deferred acquisition costs	989	963	1,960	1,926
General and administrative expenses	1,054	1,032	2,049	2,027
Interest expense	93	92	184	184
<b>Total claims and expenses</b>	<b>5,898</b>	<b>5,634</b>	<b>11,667</b>	<b>11,115</b>
<b>Income before income taxes</b>	<b>887</b>	<b>1,076</b>	<b>1,804</b>	<b>2,224</b>
Income tax expense	223	264	449	579
<b>Net income</b>	<b>\$ 664</b>	<b>\$ 812</b>	<b>\$ 1,355</b>	<b>\$ 1,645</b>
<b>Net income per share</b>				
Basic	\$ 2.27	\$ 2.56	\$ 4.60	\$ 5.14
Diluted	\$ 2.24	\$ 2.53	\$ 4.55	\$ 5.08
<b>Combined ratio</b>				
Loss and loss adjustment expense ratio	61.1%	58.9%	61.1%	58.2%
Underwriting expense ratio	32.0	31.9	31.6	31.7
<b>Combined ratio</b>	<b>93.1%</b>	<b>90.8%</b>	<b>92.7%</b>	<b>89.9%</b>
<b>Incremental impact of direct to consumer initiative on combined ratio</b>	<b>0.4%</b>	<b>0.5%</b>	<b>0.3%</b>	<b>0.5%</b>

The following discussions of the Company's net income and segment operating income are presented on an after-tax basis. Discussions of the components of net income and segment operating 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*

Diluted net income per share of \$2.24 in the second quarter of 2016 decreased by 11% from diluted net income per share of \$2.53 in the same period of 2015. Net income of \$664 million in the second quarter of 2016 decreased by 18% from net income of \$812 million in the same period of 2015. The lower rate of decrease in diluted net income per share reflected the impact of share repurchases in recent periods. The

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decrease in net income primarily reflected the pre-tax impacts of (i) higher catastrophe losses, (ii) lower underwriting margins excluding catastrophe losses and prior year reserve development ( underlying underwriting margins ) and (iii) lower net investment income, partially offset by (iv) higher net favorable prior year reserve development. Catastrophe losses in the second quarters of 2016 and 2015 were \$333 million and \$221 million, respectively. Net favorable prior year reserve development in the second quarters of 2016 and 2015 was \$288 million and \$207 million, respectively. The lower underlying underwriting margins primarily resulted from (i) higher non-catastrophe

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weather-related losses and (ii) loss cost trends that exceeded earned pricing. Partially offsetting this net pre-tax decrease in income was a related decrease in income tax expense. Income tax expense in the second quarter of 2015 was reduced by \$32 million as a result of the resolution of prior year tax matters.

Diluted net income per share of \$4.55 in the first six months of 2016 decreased by 10% from diluted net income per share of \$5.08 in the same period of 2015. Net income of \$1.36 billion in the first six months of 2016 decreased by 18% from net income of \$1.65 billion in the same period of 2015. 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) higher catastrophe losses, (ii) lower net investment income and (iii) lower underlying underwriting margins, partially offset by (iv) higher other revenues and (v) higher net favorable prior year reserve development. Catastrophe losses in the first six months of 2016 and 2015 were \$651 million and \$383 million, respectively. Net favorable prior year reserve development in the first six months of 2016 and 2015 was \$468 million and \$450 million, respectively. The lower underlying underwriting margins primarily resulted from loss cost trends that exceeded earned pricing. Partially offsetting this net pre-tax decrease in income was a related decrease in income tax expense. Income tax expense in the first six months of 2015 was reduced as a result of the resolution of prior year tax matters in the second quarter of 2015.

The Company has insurance operations in Canada, the United Kingdom and the Republic of Ireland, as well as in Brazil, primarily through a joint venture. Because these operations are conducted in local currencies other than the U.S. dollar, the Company is subject to the impact of changes in foreign currency exchange rates. For the three months and six months ended June 30, 2016 and 2015, 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 the Business and International Insurance segment's operating income for the periods reported.

**Revenues**

*Earned Premiums*

Earned premiums in the second quarter of 2016 were \$6.07 billion, \$136 million or 2% higher than in the same period of 2015. Earned premiums in the first six months of 2016 were \$12.05 billion, \$229 million or 2% higher than in the same period of 2015. In the Business and International Insurance segment, earned premiums in the second quarter of 2016 increased by 1% over the same period of 2015, and earned premiums in the first six months of 2016 were comparable with the same period of 2015. In the Bond & Specialty Insurance segment, earned premiums in the second quarter were 1% lower than in the same period of 2015, and earned premiums in the first six months of 2016 were comparable with the same period of 2015. In the Personal Insurance segment, earned premiums in the second quarter and first six months of 2016 increased by 7% and 6%, respectively, over the same periods of 2015. Factors contributing to the changes in earned premiums in each segment 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.

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Average investments (1)	\$ 70,033	\$ 70,291	\$ 69,989	\$ 70,548
Pre-tax net investment income	549	632	1,093	1,224
After-tax net investment income	442	503	881	981
Average pre-tax yield (2)	3.1%	3.6%	3.1%	3.5%
Average after-tax yield (2)	2.5%	2.9%	2.5%	2.8%

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(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.

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Net investment income in the second quarter of 2016 was \$549 million, \$83 million or 13% lower than in the same period of 2015. Net investment income in the first six months of 2016 was \$1.09 billion, \$131 million or 11% lower than in the same period of 2015. Net investment income from fixed maturity investments in the second quarter and first six months of 2016 was \$497 million and \$1.00 billion, respectively, \$29 million and \$57 million lower, respectively, than in the same periods of 2015. The decreases primarily resulted from lower long-term reinvestment rates available in the market. Net investment income generated by non-fixed maturity investments in the second quarter of 2016 was \$53 million, \$60 million lower than in the same period of 2015, primarily due to lower returns from private equity limited partnerships and real estate partnerships. Net investment income generated by non-fixed maturity investments in the first six months of 2016 was \$97 million, \$85 million lower than in the same period of 2015, primarily due to lower returns from private equity limited partnerships, hedge funds and real estate partnerships.

*Fee Income*

The National Accounts market in the Business and International Insurance segment is the primary source of the Company's fee-based business. The \$4 million and \$7 million increases in fee income in the second quarter and first six months of 2016, respectively, compared with the same periods of 2015 are discussed in the Business and International Insurance segment discussion that follows.

*Net Realized Investment Gains*

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

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Net Realized Investment Gains</b>				
Other-than-temporary impairment losses	\$ (4)	\$ (6)	\$ (22)	\$ (9)
Other net realized investment gains	23	16	32	29
<b>Net realized investment gains</b>	<b>\$ 19</b>	<b>\$ 10</b>	<b>\$ 10</b>	<b>\$ 20</b>

*Other Revenues*

Other revenues in the second quarters and first six months of 2016 and 2015 included installment premium charges. Other revenues in the first six months of 2016 also included proceeds from the favorable settlement of a claims-related legal matter in the Business and International Insurance segment in the first quarter of 2016.

**Claims and Expenses**

*Claims and Claim Adjustment Expenses*

Claims and claim adjustment expenses in the second quarter of 2016 were \$3.76 billion, \$215 million or 6% higher than in the same period of 2015, primarily reflecting the impacts of (i) higher catastrophe losses, (ii) loss cost trends, (iii) higher non-catastrophe weather-related losses and (iv) higher volumes of insured exposures, partially offset by (v) higher net favorable prior year reserve development. Catastrophe losses in the second quarter of 2016 primarily resulted from wind and hail storms in several regions of the United States and wildfires in Canada. Catastrophe losses in the second quarter of 2015 primarily resulted from wind and hail storms in several regions of the United States. Factors contributing to net favorable prior year reserve development in each segment during the second quarters of 2016 and 2015 are discussed in the segment discussions that follow.

Claims and claim adjustment expenses in the first six months of 2016 were \$7.47 billion, \$496 million or 7% higher than in the same period of 2015, primarily reflecting the impacts of (i) higher catastrophe losses, (ii) loss cost trends and (iii) higher volumes of insured exposures, partially offset by (iv) higher net favorable prior year reserve development. Catastrophe losses in the first six months of 2016 and 2015 included the second quarter events described above, as well as wind and hail storms in Texas and several other regions of the United States and winter storms in the eastern United States in the first quarter of 2016, and a winter storm in the eastern United States in the first quarter of 2015. Factors contributing to net favorable prior year reserve development in each segment during these periods are discussed in the segment discussions that follow.

Table of Contents*Significant Catastrophe Losses*

The following table presents the amount of losses recorded by the Company for significant catastrophes that occurred in 2016, 2015 and 2014, the amount of related net unfavorable (favorable) prior year reserve development recognized in the three months and six months ended June 30, 2016 and 2015, and the estimate of ultimate losses for those catastrophes at June 30, 2016 and December 31, 2015. 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 2015 Annual Report.

(in millions, pre-tax and net of reinsurance)	Losses Incurred/Unfavorable (Favorable) Prior Year Reserve Development				Estimated Ultimate Losses	
	Three Months Ended June 30,		Six Months Ended June 30,		June 30,	December 31,
	2016	2015	2016	2015	2016	2015
<b>2014</b>						
PCS Serial Number:						
32 Winter storm	\$	\$ (2)	\$ (1)	\$ (3)	\$ 138	\$ 139
43 Severe wind and hail storms	5	(1)	5	(1)	181	176
<b>2015</b>						
PCS Serial Number:						
68 Winter storm	(2)	(9)	(2)	153	138	140
<b>2016</b>						
PCS Serial Number:						
21 Severe wind and hail storms	(16)	n/a	147	n/a	147	n/a
25 Severe wind and hail storms	163	n/a	163	n/a	163	n/a

n/a: not applicable.

*Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the second quarter of 2016 was \$989 million, \$26 million or 3% higher than in the same period of 2015. Amortization of deferred acquisition costs in the first six months of 2016 was \$1.96 billion, \$34 million or 2% higher than in the same period of 2015. 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 second quarter of 2016 were \$1.05 billion, \$22 million or 2% higher than in the same period of 2015. General and administrative expenses in the first six months of 2016 were \$2.05 billion, \$22 million or 1% higher than in the same period



of 2015. General and administrative expenses are discussed in more detail in the segment discussions that follow.

*Interest Expense*

Interest expense in the second quarter and first six months of 2016 was \$93 million and \$184 million, respectively, compared with \$92 million and \$184 million, respectively, in the same periods of 2015.

*Income Tax Expense*

Income tax expense in the second quarter of 2016 was \$223 million, \$41 million or 16% lower than in the same period of 2015, primarily reflecting the impact of the \$189 million decrease in income before income taxes in the second quarter of 2016, partially offset by the impact of the \$32 million reduction in income tax expense in the second quarter of 2015 resulting from the resolution of prior year tax matters. Income tax expense in the first six months of 2016 was \$449 million, \$130 million or 22% lower than in the same period of 2015, primarily reflecting the impact of the \$420 million decrease in income before income taxes in the first six months of 2016, partially offset by the resolution of prior year tax matters in the second quarter of 2015.

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The Company's effective tax rate in both the second quarter and first six months of 2016 was 25%. In the second quarter and first six months of 2015, the Company's effective tax rates were 25% and 26%, respectively. The effective tax rates in all 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 rates in the second quarter and first six months of 2015 were reduced by the impact of the resolution of prior year tax matters discussed above.

**Combined Ratio**

The combined ratio of 93.1% in the second quarter of 2016 was 2.3 points higher than the combined ratio of 90.8% in the same period of 2015. The combined ratio of 92.7% in the first six months of 2016 was 2.8 points higher than the combined ratio of 89.9% in the same period of 2015.

The loss and loss adjustment expense ratio of 61.1% in the second quarter of 2016 was 2.2 points higher than the loss and loss adjustment expense ratio of 58.9% in the same period of 2015. Catastrophe losses accounted for 5.5 points and 3.7 points of the 2016 and 2015 second quarter loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in the second quarters of 2016 and 2015 provided 4.7 points and 3.5 points of benefit, respectively, to the loss and loss adjustment expense ratio. The loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development ( underlying loss and loss adjustment expense ratio ) in the second quarter of 2016 was 1.6 points higher than the 2015 ratio on the same basis, primarily reflecting (i) higher non-catastrophe weather-related losses and (ii) the impact of loss cost trends that exceeded earned pricing.

The loss and loss adjustment expense ratio of 61.1% in the first six months of 2016 was 2.9 points higher than the loss and loss adjustment expense ratio of 58.2% in the same period of 2015. Catastrophe losses accounted for 5.4 points and 3.3 points of the 2016 and 2015 six-month loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in the first six months of 2016 and 2015 provided 3.9 points and 3.8 points of benefit, respectively, to the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in the first six months of 2016 was 0.9 points higher than the 2015 ratio on the same basis, primarily reflecting the impact of loss cost trends that exceeded earned pricing.

The underwriting expense ratio of 32.0% for the second quarter of 2016 was 0.1 points higher than the underwriting expense ratio of 31.9% in the same period of 2015. In the first six months of 2016, the underwriting expense ratio of 31.6% was 0.1 points lower than the underwriting expense ratio of 31.7% in the same period of 2015.

*Written Premiums*

Consolidated gross and net written premiums were as follows:

<b>Gross Written Premiums</b>	
<b>Three Months Ended June 30,</b>	<b>Six Months Ended June 30,</b>

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(in millions)	2016	2015	2016	2015
Business and International Insurance	\$ 3,997	\$ 4,027	\$ 8,363	\$ 8,303
Bond & Specialty Insurance	549	537	1,085	1,059
Personal Insurance	2,142	1,978	3,952	3,654
<b>Total</b>	<b>\$ 6,688</b>	<b>\$ 6,542</b>	<b>\$ 13,400</b>	<b>\$ 13,016</b>

(in millions)	Net Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Business and International Insurance	\$ 3,680	\$ 3,679	\$ 7,594	\$ 7,476
Bond & Specialty Insurance	536	534	1,028	1,012
Personal Insurance	2,129	1,956	3,889	3,578
<b>Total</b>	<b>\$ 6,345</b>	<b>\$ 6,169</b>	<b>\$ 12,511</b>	<b>\$ 12,066</b>

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Gross written premiums in the second quarter and first six months of 2016 increased by 2% and 3%, respectively, over the same periods of 2015. Net written premiums in the second quarter and first six months of 2016 increased by 3% and 4%, respectively, over the same periods of 2015. Factors contributing to the changes in gross and net written premiums in each segment are discussed in more detail in the segment discussions that follow.

**RESULTS OF OPERATIONS BY SEGMENT****Business and International Insurance**

Results of the Company's Business and International Insurance segment were as follows:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues</b>				
Earned premiums	\$ 3,631	\$ 3,609	\$ 7,230	\$ 7,229
Net investment income	420	487	835	941
Fee income	115	111	229	222
Other revenues	8	5	41	13
<b>Total revenues</b>	<b>\$ 4,174</b>	<b>\$ 4,212</b>	<b>\$ 8,335</b>	<b>\$ 8,405</b>
<b>Total claims and expenses</b>	<b>\$ 3,669</b>	<b>\$ 3,490</b>	<b>\$ 7,210</b>	<b>\$ 6,993</b>
<b>Operating income</b>	<b>\$ 393</b>	<b>\$ 543</b>	<b>\$ 869</b>	<b>\$ 1,058</b>
Loss and loss adjustment expense ratio	64.2%	60.6%	63.3%	60.9%
Underwriting expense ratio	33.3	32.6	32.9	32.4
<b>Combined ratio</b>	<b>97.5%</b>	<b>93.2%</b>	<b>96.2%</b>	<b>93.3%</b>

*Overview*

Operating income in the second quarter of 2016 was \$393 million, \$150 million or 28% lower than operating income of \$543 million in the same period of 2015, primarily reflecting the pre-tax impacts of (i) higher catastrophe losses, (ii) lower underlying underwriting margins and (iii) lower net investment income, partially offset by (iv) higher net favorable prior year reserve development. Catastrophe losses in the second quarters of 2016 and 2015 were \$212 million and \$108 million, respectively. Net favorable prior year reserve development in the second quarters of 2016 and 2015 was \$138 million and \$103 million, respectively. The lower underlying underwriting margins primarily resulted from (i) higher non-catastrophe weather-related losses and (ii) loss cost trends that exceeded earned pricing. Partially offsetting this net pre-tax decrease in operating income was a related decrease in income tax expense. Income tax expense in the second quarter of 2015 was reduced by \$12 million as a result of the resolution of prior year tax matters.

Operating income in the first six months of 2016 was \$869 million, \$189 million or 18% lower than operating income of \$1.06 billion in the same period of 2015, primarily reflecting the pre-tax impacts of (i) higher catastrophe losses, (ii) lower net investment income and (iii) lower underlying underwriting margins, partially offset by (iv) higher net favorable prior year reserve development and (v) higher other revenues. Catastrophe losses in the first six months of 2016 and 2015 were \$360 million and \$207 million, respectively. Net favorable prior year reserve development in the first six months of 2016 and 2015 was \$231 million and \$180 million, respectively. The lower underlying underwriting margins primarily resulted from loss cost trends that exceeded earned pricing. Partially offsetting this net pre-tax decrease in operating income was a related decrease in income tax expense. Income tax expense in the first six months of 2015 was reduced by \$12 million as a result of the resolution of prior year tax matters in the second quarter of 2015.

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**Revenues**

*Earned Premiums*

Earned premiums in the second quarter of 2016 were \$3.63 billion, \$22 million or 1% higher than in the same period of 2015. Earned premiums in the first six months of 2016 were \$7.23 billion, comparable with the same period of 2015.

*Net Investment Income*

Net investment income in the second quarter of 2016 was \$420 million, \$67 million or 14% lower than in the same 2015 period. Net investment income in the first six months of 2016 was \$835 million, \$106 million or 11% lower than in the same period of 2015. Refer to the "Net Investment Income" section of the "Consolidated Results of Operations" discussion herein for a description of the factors contributing to the decreases in the Company's consolidated net investment income in the second quarter and first six months of 2016 compared with the same periods of 2015. In addition, refer to note 2 of notes to the Company's consolidated financial statements in the Company's 2015 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 second quarter of 2016 was \$115 million, \$4 million or 4% higher than in the same period of 2015. Fee income in the first six months of 2016 was \$229 million, \$7 million or 3% higher than in the same period of 2015. The increase in both periods of 2016 primarily reflected higher fee income associated with servicing growth in the large deductible business.

*Other Revenues*

Other revenues in all periods of 2016 and 2015 included installment premium charges. Other revenues in the first six months of 2016 also included proceeds from the favorable settlement of a claims-related legal matter in the first quarter of 2016.

**Claims and Expenses**

*Claims and Claim Adjustment Expenses*

Claims and claim adjustment expenses in the second quarter of 2016 were \$2.39 billion, \$147 million or 7% higher than in the same period of 2015, primarily reflecting the impacts of (i) higher catastrophe losses, (ii) loss cost trends and (iii) higher non-catastrophe weather-related losses, partially offset by (iv) higher net favorable prior year reserve development. Net favorable prior year reserve development in the second quarter of 2016 was primarily driven by better than expected loss experience in the Company's domestic operations in (i) the workers' compensation product line for accident years 2006 and prior as well as accident year 2015 and (ii) the general liability product line for both primary and excess coverages for accident years 2011 and 2015 (excluding an increase to environmental reserves discussed below), as well as in the Company's international operations in Europe. Net favorable prior year reserve development in the second quarter of 2015 was primarily driven by better than expected loss experience in the Company's domestic operations in (i) the workers' compensation product line for accident years 2006 and prior, (ii) the general liability product line (excluding an increase to environmental reserves discussed below), primarily related to primary coverages for accident years 2008 through 2013, (iii) property coverages in the commercial multi-peril product line primarily related to non-catastrophe losses for accident years 2012 and 2014 and (iv) the property product line related to catastrophe losses for accident year 2014, as well as in the Company's operations at Lloyd's and in Canada. These factors contributing to net favorable prior year reserve development in the second quarters of 2016 and 2015 were partially offset by \$82 million and \$72 million increases, respectively, to environmental reserves, which are discussed in further detail in the Environmental Claims and Litigation section herein.

Claims and claim adjustment expenses in the first six months of 2016 were \$4.68 billion, \$181 million or 4% higher than in the same period of 2015, primarily reflecting the impacts of (i) higher catastrophe losses and (ii) loss cost trends, partially offset by (iii) higher net favorable prior year reserve development. Net favorable prior year reserve development in the first six months of 2016 was primarily driven by better than expected loss experience in the Company's domestic operations in (i) the workers' compensation product line for accident years 2006 and prior as well as accident year 2015 and (ii) the general liability product line (excluding an increase to environmental reserves discussed below), related to both primary and excess coverages for accident years 2011, 2013 and 2015 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. Net favorable prior year reserve development in the first six months of 2015 was primarily driven by better than expected loss experience in the Company's

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domestic operations in (i) the general liability product line (excluding an increase to environmental reserves discussed below), primarily related to primary coverages for accident years 2005 and prior and for 2009 through 2013, (ii) the workers' compensation line of business for accident years 2006 and prior, (iii) the property product line related to catastrophe losses for accident years 2012 through 2014 and (iv) property coverages in the commercial multi-peril product line primarily related to non-catastrophe losses for accident years 2012 and 2014, as well as in the Company's operations at Lloyd's and in Canada. These factors contributing to net favorable prior year reserve development in the first six months of 2016 and 2015 were partially offset by the \$82 million and \$72 million increases, respectively, to environmental reserves, which are discussed in further detail in the "Environmental Claims and Litigation" section herein.

*Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the second quarter of 2016 was \$588 million, \$10 million or 2% higher than in the same period of 2015. Amortization of deferred acquisition costs in the first six months of 2016 was \$1.17 billion comparable with the same period of 2015.

*General and Administrative Expenses*

General and administrative expenses in the second quarter of 2016 were \$696 million, \$22 million or 3% higher than in the same period of 2015. General and administrative expenses in the first six months of 2016 were \$1.36 billion, \$31 million or 2% higher than in the same period of 2015.

*Income Tax Expense*

Income tax expense in the second quarter of 2016 was \$112 million, \$67 million or 37% lower than in the same period of 2015, primarily reflecting the \$217 million decrease in income before income taxes, partially offset by the impact of the \$12 million reduction in income tax expense in the second quarter of 2015 resulting from the resolution of prior year tax matters. Income tax expense in the first six months of 2016 was \$256 million, \$98 million or 28% lower than in the same period of 2015, primarily reflecting the \$287 million decrease in income before income taxes, partially offset by the resolution of prior year tax matters in the second quarter of 2015.

**Combined Ratio**

The combined ratio of 97.5% in the second quarter of 2016 was 4.3 points higher than the combined ratio of 93.2% in the same period of 2015. The combined ratio of 96.2% in the first six months of 2016 was 2.9 points higher than the combined ratio of 93.3% in the same period of 2015.



The loss and loss adjustment expense ratio of 64.2% in the second quarter of 2016 was 3.6 points higher than the loss and loss adjustment expense ratio of 60.6% in the same period of 2015. Catastrophe losses in the second quarters of 2016 and 2015 accounted for 5.8 points and 2.9 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in the second quarters of 2016 and 2015 provided 3.8 points and 2.8 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2016 second quarter underlying loss and loss adjustment expense ratio was 1.7 points higher than the 2015 ratio on the same basis, primarily reflecting (i) higher non-catastrophe weather-related losses and (ii) the impact of loss cost trends that exceeded earned pricing.

The loss and loss adjustment expense ratio of 63.3% in the first six months of 2016 was 2.4 points higher than the loss and loss adjustment expense ratio of 60.9% in the same period of 2015. Catastrophe losses in the first six months of 2016 and 2015 accounted for 5.0 points and 2.9 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in the first six months of 2016 and 2015 provided 3.2 points and 2.5 points of benefit, respectively, to the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in the first six months of 2016 was 1.0 points higher than the 2015 ratio on the same basis, primarily reflecting the impact of loss cost trends that exceeded earned pricing.

The underwriting expense ratio of 33.3% for the second quarter of 2016 was 0.7 points higher than the underwriting expense ratio of 32.6% in the same period of 2015. In the first six months of 2016, the underwriting expense ratio of 32.9% was 0.5 points higher than the underwriting expense ratio of 32.4% in the same 2015 period.

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The Business and International Insurance segments gross and net written premiums by market were as follows:

(in millions)	Gross Written Premiums				
	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	2015
Domestic:					
Select Accounts	\$ 721	\$ 723	\$ 1,465	\$ 1,463	
Middle Market	1,564	1,530	3,465	3,349	
National Accounts	377	376	911	886	
First Party	510	506	950	929	
Specialized Distribution	302	301	590	571	
<b>Total Domestic</b>	<b>3,474</b>	<b>3,436</b>	<b>7,381</b>	<b>7,198</b>	
International	523	591	982	1,105	
<b>Total Business and International Insurance</b>	<b>\$ 3,997</b>	<b>\$ 4,027</b>	<b>\$ 8,363</b>	<b>\$ 8,303</b>	

(in millions)	Net Written Premiums				
	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	2015
Domestic:					
Select Accounts	\$ 709	\$ 709	\$ 1,433	\$ 1,431	
Middle Market	1,494	1,451	3,323	3,177	
National Accounts	234	228	554	527	
First Party	466	452	824	792	
Specialized Distribution	302	300	588	568	
<b>Total Domestic</b>	<b>3,205</b>	<b>3,140</b>	<b>6,722</b>	<b>6,495</b>	
International	475	539	872	981	
<b>Total Business and International Insurance</b>	<b>\$ 3,680</b>	<b>\$ 3,679</b>	<b>\$ 7,594</b>	<b>\$ 7,476</b>	

Gross written premiums in the second quarter and first six months of 2016 decreased by 1% and increased by 1%, respectively, over the same periods of 2015. Net written premiums in the second quarter of 2016 were comparable to the same period of 2015, and net written premiums in the first six months of 2016 increased by 2% over the same period of 2015. Business retention rates in the second quarter and first six months of 2016 remained strong and were higher than in the same periods of 2015. Renewal premium changes in the second quarter and first six months of 2016 remained positive but were lower than in the same periods of 2015. New business premiums in the second quarter and first six months of 2016 increased over the same periods of 2015.

*Select Accounts.* Net written premiums of \$709 million and \$1.43 billion in the second quarter and first six months of 2016, respectively, were comparable to the same periods of 2015. Business retention rates in the second quarter and

first six months of 2016 remained strong and were higher than in the same periods of 2015. Renewal premium changes in the second quarter and first six months of 2016 remained positive but were lower than in the same periods of 2015. New business premiums in the second quarter and first six months of 2016 increased over from the same periods of 2015.

*Middle Market.* Net written premiums of \$1.49 billion and \$3.32 billion in the second quarter and first six months of 2016, respectively, increased by 3% and 5%, respectively, over the same periods of 2015. Business retention rates in the second quarter and first six months of 2016 remained strong and were higher than in the same periods of 2015. Renewal premium changes in the second quarter and first six months of 2016 remained positive but were lower than in the same periods of 2015. New business premiums in the second quarter and first six months of 2016 increased over the same periods of 2015.

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*National Accounts.* Net written premiums of \$234 million and \$554 million in the second quarter and first six months of 2016, respectively, increased by 3% and 5%, respectively, over the same periods of 2015. Business retention rates in the second quarter and first six months of 2016 remained strong and were higher than in the same periods of 2015. Renewal premium changes in the second quarter and first six months of 2016 remained positive and were higher than in the same periods of 2015. New business premiums in the second quarter and first six months of 2016 increased over the same periods of 2015.

*First Party.* Net written premiums of \$466 million and \$824 million in the second quarter and first six months of 2016, respectively, increased by 3% and 4%, respectively, over the same periods of 2015. Business retention rates in the second quarter and first six months of 2016 remained strong and were higher than in the same periods of 2015. Renewal premium changes in the second quarter and first six months of 2016 were slightly negative, consistent with the same periods of 2015. New business premiums in the second quarter and first six months of 2016 increased over the same periods of 2015.

*Specialized Distribution.* Net written premiums of \$302 million and \$588 million in the second quarter and first six months of 2016, respectively, increased by 1% and 4%, respectively, over the same periods of 2015. Business retention rates in the second quarter of 2016 remained strong but were lower than in the same period of 2015. Business retention rates in the first six months of 2016 remained strong and were comparable with the same period of 2015. Renewal premium changes in the second quarter and first six months of 2016 remained positive but were lower than in the same periods of 2015. New business premiums in the second quarter of 2016 decreased from the same period of 2015, while new business premiums in the first six months of 2016 increased over the same period of 2015.

*International.* Net written premiums of \$475 million and \$872 million in the second quarter and first six months of 2016, respectively, decreased by 12% and 11%, respectively, from the same periods of 2015, primarily driven by the impact of changes in foreign currency exchange rates and the impacts of disciplined underwriting and lower levels of economic activity impacting insured exposures in the Company's European operations, including Lloyd's. Excluding the surety line of business, for which the following are not relevant measures, business retention rates in the second quarter and first six months of 2016 remained strong but were lower than in the same periods of 2015. Renewal premium changes in the second quarter and first six months of 2016 were slightly negative and were comparable with the same periods of 2015. New business premiums in the second quarter and first six months of 2016 increased over the same periods of 2015.

**Bond & Specialty Insurance**

Results of the Company's Bond & Specialty Insurance segment were as follows:

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(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues</b>				
Earned premiums	\$ 518	\$ 524	\$ 1,026	\$ 1,028
Net investment income	51	57	103	113
Other revenues	6	5	9	10
<b>Total revenues</b>	<b>\$ 575</b>	<b>\$ 586</b>	<b>\$ 1,138</b>	<b>\$ 1,151</b>
<b>Total claims and expenses</b>	<b>\$ 274</b>	<b>\$ 388</b>	<b>\$ 628</b>	<b>\$ 774</b>
<b>Operating income</b>	<b>\$ 202</b>	<b>\$ 151</b>	<b>\$ 346</b>	<b>\$ 275</b>
Loss and loss adjustment expense ratio	15.0%	36.3%	23.4%	36.9%
Underwriting expense ratio	37.4	37.4	37.4	38.0
<b>Combined ratio</b>	<b>52.4%</b>	<b>73.7%</b>	<b>60.8%</b>	<b>74.9%</b>

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*Overview*

Operating income in the second quarter of 2016 was \$202 million, \$51 million or 34% higher than operating income of \$151 million in the same period of 2015, primarily reflecting the pre-tax impact of higher net favorable prior year reserve development. Net favorable prior year reserve development in the second quarters of 2016 and 2015 was \$150 million and \$40 million, respectively. Catastrophe losses in the second quarters of 2016 and 2015 were \$3 million and \$1 million, respectively. Partially offsetting this net pre-tax increase in operating income was a related increase in income tax expense. Income tax expense in the second quarter of 2015 was reduced by \$16 million as a result of the resolution of prior year tax matters.

Operating income in the first six months of 2016 was \$346 million, \$71 million or 26% higher than operating income of \$275 million in the same period of 2015, primarily reflecting the pre-tax impact of higher net favorable prior year reserve development. Net favorable prior year reserve development in the first six months of 2016 and 2015 was \$210 million and \$75 million, respectively. Catastrophe losses in the first six months of 2016 and 2015 were \$4 million and \$2 million, respectively. Partially offsetting this net pre-tax increase in operating income was a related increase in income tax expense. Income tax expense in the first six months of 2015 was reduced by \$16 million as a result of the resolution of prior year tax matters in the second quarter of 2015.

**Revenues**

*Earned Premiums*

Earned premiums in the second quarter of 2016 were \$518 million, \$6 million or 1% lower than in the same period of 2015. Earned premiums in the first six months of 2016 were \$1.03 billion, comparable with the same period of 2015.

*Net Investment Income*

Net investment income in the second quarter of 2016 was \$51 million, \$6 million or 11% lower than in the same period of 2015. Net investment income in the first six months of 2016 was \$103 million, \$10 million or 9% lower than in the same period of 2015. Refer to the Net Investment Income section of Consolidated Results of Operations herein for a discussion of the decreases in the Company's consolidated net investment income in the second quarter and first six months of 2016 as compared with the same periods of 2015. In addition, refer to note 2 of notes to the Company's consolidated financial statements in the Company's 2015 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 second quarter of 2016 were \$80 million, \$112 million or 58% lower than in the same period of 2015, primarily reflecting higher net favorable prior year reserve development. Net favorable prior year reserve development in the second quarter of 2016 was primarily driven by better than expected loss experience in (i) the fidelity and surety product line for accident years 2010, 2013 and 2014 and (ii) the general liability product line for accident years 2007 through 2011. Net favorable prior year reserve development in the second quarter of 2015 was primarily driven by better than expected loss experience in the contract surety product line for accident years 2010 through 2013.

Claims and claim adjustment expenses in the first six months of 2016 were \$244 million, \$140 million or 36% lower than in the same period of 2015, primarily reflecting higher net favorable prior year reserve development. Net favorable prior year reserve development in the first six months of 2016 was primarily driven by better than expected loss experience in (i) the fidelity and surety product line for accident years 2010 through 2014 and (ii) the general liability product line for accident years 2007 through 2011. Net favorable prior year reserve development in the first six months of 2015 was primarily driven by better than expected loss experience in the contract surety product line for accident years 2010 through 2013.

*Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the second quarter of 2016 was \$98 million, \$1 million or 1% higher than in the same period of 2015. Amortization of deferred acquisition costs in the first six months of 2016 was \$194 million, \$3 million or 2% higher than in the same period of 2015.

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*General and Administrative Expenses*

General and administrative expenses in the second quarter of 2016 were \$96 million, \$3 million or 3% lower than in the same period of 2015. General and administrative expenses in the first six months of 2016 were \$190 million, \$9 million or 5% lower than in the same period of 2015. The declines in both periods primarily reflected the impact of certain customer-related intangible assets which became fully amortized in the second quarter of 2015.

*Income Tax Expense*

Income tax expense in the second quarter of 2016 was \$99 million, \$52 million higher than in the same period of 2015, primarily reflecting the impact of the \$103 million increase in income before income taxes in the second quarter of 2016 and the \$16 million reduction in income tax expense in the second quarter of 2015 resulting from the resolution of prior year tax matters. Income tax expense in the first six months of 2016 was \$164 million, \$62 million or 61% higher than in the same period of 2015, primarily reflecting the impact of the \$133 million increase in income before income taxes in the first six months of 2016 and the resolution of prior year tax matters in the second quarter of 2015.

**Combined Ratio**

The combined ratio of 52.4% in the second quarter of 2016 was 21.3 points lower than the combined ratio of 73.7% in the same period of 2015. The combined ratio of 60.8% in the first six months of 2016 was 14.1 points lower than the combined ratio of 74.9% in the same period of 2015.

The loss and loss adjustment expense ratio of 15.0% in the second quarter of 2016 was 21.3 points lower than the loss and loss adjustment expense ratio of 36.3% in the same period of 2015. Net favorable prior year reserve development in the second quarters of 2016 and 2015 provided 29.1 points and 7.7 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in the second quarters of 2016 and 2015 accounted for 0.6 points and 0.3 points, respectively, of the loss and loss adjustment expense ratio. The 2016 second quarter underlying loss and loss adjustment expense ratio was 0.2 points lower than the 2015 ratio on the same basis.

The loss and loss adjustment expense ratio of 23.4% in the first six months of 2016 was 13.5 points lower than the loss and loss adjustment expense ratio of 36.9% in the same period of 2015. Net favorable prior year reserve development in the first six months of 2016 and 2015 provided 20.6 points and 7.3 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in the first six months of 2016 and 2015 accounted for 0.4 points and 0.2 points, respectively, of the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in the first six months of 2016 was 0.4 points lower than the 2015 ratio on the same basis.

The underwriting expense ratio of 37.4% in the second quarter of 2016 was level with the underwriting expense ratio in the same period of 2015. In the first six months of 2016, the underwriting expense ratio of 37.4% was 0.6 points lower than the underwriting expense ratio of 38.0% in the same period of 2015.



*Written Premiums*

The Bond & Specialty Insurance segment's gross and net written premiums were as follows:

(in millions)	Gross Written Premiums				
	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	
<b>Bond &amp; Specialty Insurance</b>	\$ 549	\$ 537	\$ 1,085	\$ 1,059	

(in millions)	Net Written Premiums				
	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	
<b>Bond &amp; Specialty Insurance</b>	\$ 536	\$ 534	\$ 1,028	\$ 1,012	

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Gross written premiums in the second quarter and first six months of 2016 increased by 2% over the same periods of 2015. Net written premiums in the second quarter of 2016 were comparable to the same period of 2015, and net written premiums in the first six months of 2016 increased by 2% over the same period of 2015. Excluding the surety line of business, for which the following are not relevant measures, business retention rates in the second quarter and first six months of 2016 remained strong and were higher than in the same periods of 2015. Renewal premium changes in the second quarter of 2016 remained positive and were higher than in the same period of 2015. Renewal premium changes in the first six months of 2016 remained positive but were slightly lower than in the same period of 2015. New business premiums in the second quarter and first six months of 2016 increased over the same periods of 2015.

**Personal Insurance**

Results of the Company's Personal Insurance segment were as follows:

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues</b>				
Earned premiums	\$ 1,918	\$ 1,798	\$ 3,792	\$ 3,562
Net investment income	78	88	155	170
Fee income	4	4	7	7
Other revenues	14	12	28	24
<b>Total revenues</b>	<b>\$ 2,014</b>	<b>\$ 1,902</b>	<b>\$ 3,982</b>	<b>\$ 3,763</b>
<b>Total claims and expenses</b>	<b>\$ 1,855</b>	<b>\$ 1,657</b>	<b>\$ 3,630</b>	<b>\$ 3,150</b>
<b>Operating income</b>	<b>\$ 116</b>	<b>\$ 174</b>	<b>\$ 255</b>	<b>\$ 426</b>
Loss and loss adjustment expense ratio	67.6%	62.2%	67.1%	58.7%
Underwriting expense ratio	28.1	28.9	27.6	28.6
<b>Combined ratio</b>	<b>95.7%</b>	<b>91.1%</b>	<b>94.7%</b>	<b>87.3%</b>
<b>Incremental impact of direct to consumer initiative on combined ratio</b>	<b>1.1%</b>	<b>1.7%</b>	<b>1.0%</b>	<b>1.7%</b>

*Overview*

Operating income in the second quarter of 2016 was \$116 million, \$58 million or 33% lower than operating income of \$174 million in the same period of 2015, primarily reflecting the pre-tax impact of lower net favorable prior year reserve development. Catastrophe losses in the second quarters of 2016 and 2015 were \$118 million and \$112 million, respectively. There was no net prior year reserve development in the second

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quarter of 2016. Net favorable prior year reserve development in the second quarter of 2015 was \$64 million. Partially offsetting this net pre-tax decrease in operating income was a related decrease in income tax expense. Income tax expense in the second quarter of 2015 was reduced by \$4 million as a result of the resolution of prior year tax matters.

Operating income in the first six months of 2016 was \$255 million, \$171 million or 40% lower than operating income of \$426 million in the same period of 2015, primarily reflecting the pre-tax impacts of (i) lower net favorable prior year reserve development, (ii) higher catastrophe losses and (iii) lower net investment income, partially offset by (iv) higher underlying underwriting margins. Catastrophe losses in the first six months of 2016 and 2015 were \$287 million and \$174 million, respectively. Net favorable prior year reserve development in the first six months of 2016 and 2015 was \$27 million and \$195 million, respectively. Partially offsetting this net pre-tax decrease in operating income was a related decrease in income tax expense. Income tax expense in the first six months of 2015 was reduced by \$4 million as a result of the resolution of prior year tax matters in the second quarter of 2015.

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**Revenues**

*Earned Premiums*

Earned premiums in the second quarter of 2016 were \$1.92 billion, \$120 million or 7% higher than in the same period of 2015. Earned premiums in the first six months of 2016 were \$3.79 billion, \$230 million or 6% higher than in the same period of 2015. The increases in both periods primarily reflected the impact of increases in net written premiums over the preceding twelve months.

*Net Investment Income*

Net investment income in the second quarter of 2016 was \$78 million, \$10 million or 11% lower than in the same period of 2015. Net investment income in the first six months of 2016 was \$155 million, \$15 million or 9% lower than in the same period of 2015. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the decreases in the Company's consolidated net investment income in the second quarter and first six months of 2016 compared with the same periods of 2015. In addition, refer to note 2 of notes to the Company's consolidated financial statements in the Company's 2015 Annual Report for a discussion of the Company's net investment income allocation methodology.

*Other Revenues*

Other revenues in the second quarters and first six months of 2016 and 2015 primarily consisted of installment premium charges.

**Claims and Expenses**

*Claims and Claim Adjustment Expenses*

Claims and claim adjustment expenses in the second quarter of 2016 were \$1.30 billion, \$180 million or 16% higher than in the same period of 2015, primarily reflecting (i) lower net favorable prior year reserve development, (ii) higher non-catastrophe weather-related losses, (iii) the impact of loss cost trends and (iv) higher volumes of insured exposures. There was no net prior year reserve development in the second quarter of 2016. Net favorable prior year reserve development in the second quarter of 2015 was primarily driven by better than expected loss experience in (i) the Homeowners and Other product line for liability coverages for accident years 2011 through 2014 and for non-catastrophe weather-related losses for accident year 2014, and (ii) the Automobile product line for liability coverages for accident years 2012 through 2014.

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Claims and claim adjustment expenses in the first six months of 2016 were \$2.55 billion, \$455 million or 22% higher than in the same period of 2015, primarily reflecting (i) lower net favorable prior year reserve development, (ii) higher catastrophe losses, (iii) higher volumes of insured exposures and (iv) the impact of loss cost trends. Net favorable prior year reserve development in the first six months of 2016 was primarily driven by better than expected loss experience in (i) the Automobile product line for accident year 2014 and (ii) the Homeowners and Other product line for liability coverages for accident year 2014. Net favorable prior year reserve development in the first six months of 2015 was primarily driven by better than expected loss experience in (i) the Homeowners and Other product line for liability coverages for accident years 2011 through 2014, for non-catastrophe weather-related losses for accident year 2014 and for catastrophe losses for accident year 2011, and (ii) the Automobile product line for liability coverages for accident years 2012 and 2013.

### *Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the second quarter of 2016 was \$303 million, \$15 million or 5% higher than in the same period of 2015. Amortization of deferred acquisition costs in the first six months of 2016 was \$599 million, \$26 million or 5% higher than in the same period of 2015. The increases in both periods of 2016 were generally consistent with the increases in earned premiums.

### *General and Administrative Expenses*

General and administrative expenses in the second quarter of 2016 were \$255 million, \$3 million or 1% higher than in the same period of 2015. General and administrative expenses in the first six months of 2016 were \$485 million, comparable with the same period of 2015.

### *Income Tax Expense*

Income tax expense in the second quarter of 2016 was \$43 million, \$28 million or 39% lower than in the same period of 2015, primarily reflecting the \$86 million decrease in income before income taxes, partially offset by the impact of the \$4

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million reduction in income tax expense in the second quarter of 2015 resulting from the resolution of prior year tax matters. Income tax expense in the first six months of 2016 was \$97 million, \$90 million or 48% lower than in the same period of 2015, primarily reflecting the \$261 million decrease in income before income taxes, partially offset by the impact of the resolution of prior year tax matters in the second quarter of 2015.

**Combined Ratio**

The combined ratio of 95.7% in the second quarter of 2016 was 4.6 points higher than the combined ratio of 91.1% in the same period of 2015. The combined ratio of 94.7% in the first six months of 2016 was 7.4 points higher than the combined ratio of 87.3% in the same period of 2015.

The loss and loss adjustment expense ratio of 67.6% in the second quarter of 2016 was 5.4 points higher than the loss and loss adjustment expense ratio of 62.2% in the same period of 2015. Catastrophe losses accounted for 6.2 points of the loss and loss adjustment expense ratios in the second quarters of both 2016 and 2015. Net favorable prior year reserve development in the second quarters of 2016 and 2015 provided 0 points and 3.5 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2016 second quarter underlying loss and loss adjustment expense ratio was 1.9 points higher than the 2015 ratio on the same basis, primarily reflecting (i) the impact of a significant level of new business in recent years and (ii) normal quarterly variability in weather-related and other loss activity.

The loss and loss adjustment expense ratio of 67.1% in the first six months of 2016 was 8.4 points higher than the loss and loss adjustment expense ratio of 58.7% in the same period of 2015. Catastrophe losses accounted for 7.6 points and 4.9 points of the loss and loss adjustment expense ratios in the first six months of 2016 and 2015, respectively. Net favorable prior year reserve development in the first six months of 2016 and 2015 provided 0.7 points and 5.5 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2016 underlying loss and loss adjustment expense ratio in the first six months of 2016 was 0.9 points higher than the 2015 ratio on the same basis, primarily reflecting the impact of a significant level of new business in recent years.

The underwriting expense ratio of 28.1% for the second quarter of 2016 was 0.8 points lower than the underwriting expense ratio of 28.9% in the same period of 2015. In the first six months of 2016, the underwriting expense ratio of 27.6% was 1.0 points lower than the underwriting expense ratio of 28.6% in the same period of 2015. The declines in both periods of 2016 primarily reflected 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 the Personal Insurance segment's gross and net written premiums:

(in millions)	Gross Written Premiums							
	Three Months Ended June 30,			Six Months Ended June 30,				
	2016	2015		2016	2015			
Agency Automobile	\$	1,022	\$	893	\$	1,961	\$	1,721
Agency Homeowners and Other		1,045		1,029		1,848		1,824
<b>Total Agency Personal Insurance</b>	<b>\$</b>	<b>2,067</b>	<b>\$</b>	<b>1,922</b>	<b>\$</b>	<b>3,809</b>	<b>\$</b>	<b>3,545</b>

(in millions)	Net Written Premiums							
	Three Months Ended June 30,			Six Months Ended June 30,				
	2016	2015		2016	2015			
Agency Automobile	\$	1,018	\$	890	\$	1,950	\$	1,712
Agency Homeowners and Other		1,036		1,010		1,796		1,758
<b>Total Agency Personal Insurance</b>	<b>\$</b>	<b>2,054</b>	<b>\$</b>	<b>1,900</b>	<b>\$</b>	<b>3,746</b>	<b>\$</b>	<b>3,470</b>

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Gross agency written premiums in the second quarter and first six months of 2016 were 8% and 7% higher, respectively, than in the same periods of 2015. Net agency written premiums in each of the second quarter and first six months of 2016 were 8% higher than in the same periods of 2015.

In the Agency Automobile line of business, net written premiums in each of the second quarter and first six months of 2016 were 14% higher than in the same periods of 2015. Business retention rates in the second quarter and first six months of 2016 remained strong and were higher than in the same periods of 2015. Renewal premium changes in the second quarter and first six months of 2016 remained positive but were lower than in the same periods of 2015. New business premiums in the second quarter and first six months of 2016 increased over the same periods of 2015 as a result of the Company's private passenger automobile product, Quantum Auto 2.0.

In the Agency Homeowners and Other line of business, net written premiums in the second quarter and first six months were 3% and 2% higher, respectively, than in the same periods of 2015. Business retention rates in the second quarter and first six months of 2016 remained strong and were higher than in the same periods of 2015. Renewal premium changes in the second quarter and first six months of 2016 remained positive but were lower than in the same periods of 2015. New business premiums in the second quarter and first six months of 2016 increased over the same periods of 2015.

For its Agency business, the Personal Insurance segment had approximately 6.4 million and 6.1 million active policies at June 30, 2016 and 2015, respectively.

*Direct to Consumer Written Premiums*

In the direct to consumer business, net written premiums in the second quarter and first six months of 2016 were \$75 million and \$143 million, respectively, compared with \$56 million and \$108 million in the respective periods of 2015. In the second quarter and first six months of 2016, automobile net written premiums increased by \$15 million and \$28 million, respectively, or 39% and 37%, respectively, over the same periods of 2015. In the second quarter and first six months of 2016, homeowners and other net written premiums increased by \$4 million and \$7 million, respectively, or 22% over the same periods of 2015. The direct to consumer business had 269,000 and 213,000 active policies at June 30, 2016 and 2015, respectively.

**Interest Expense and Other**

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating income (loss)	\$ (62)	\$ (62)	\$ (123)	\$ (126)

The operating income (loss) for Interest Expense and Other in the second quarters of both 2016 and 2015 was \$(62) million. The operating income (loss) for Interest Expense and Other in the first six months of 2016 was \$(123) million, compared with \$(126) million in the same



period of 2015. After-tax interest expense in the second quarters and first six months of both 2016 and 2015 was \$60 million and \$120 million, respectively.

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**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.

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 moderation 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. Travelers Property Casualty Corp. (TPC) had previously entered into settlement agreements in connection with a number of these direct action claims (Direct Action Settlements). The Company had been involved in litigation concerning whether all of the conditions of the Direct Action Settlements had been satisfied. On July 22, 2014, the United States Court of Appeals for the Second Circuit ruled that all of the conditions of the Direct Action Settlements had been satisfied. On January 15, 2015, the bankruptcy court entered an order directing the Company to pay \$579 million to the plaintiffs, comprised of the \$502 million settlement amounts, plus pre- and post-judgment interest of \$77 million, and the Company made that payment in 2015. For a full discussion of these settlement agreements and related litigation,

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see the Settlement of Asbestos Direct Action Litigation section of note 16 of notes to the consolidated financial statements in the Company's 2015 Annual Report. 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.

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On January 29, 2009, the Company and PPG Industries, Inc. (PPG), along with approximately 30 other insurers of PPG, agreed in principle to settle asbestos-related coverage litigation under insurance policies issued to PPG (the Agreement). The Agreement was incorporated into the Modified Third Amended Plan of Reorganization (Amended Plan) proposed as part of the Pittsburgh Corning Corp. (PCC, which is 50% owned by PPG) bankruptcy proceeding. Pursuant to the Amended Plan, which was filed on January 30, 2009, PCC, along with enumerated other companies (including PPG as well as the Company as a participating insurer), receive protections afforded by Section 524(g) of the Bankruptcy Code from certain asbestos-related bodily injury claims. Under the Agreement, the Company had the option to make a series of payments over 20 years totaling approximately \$620 million to the Trust created under the Amended Plan, or it could elect to make a discounted payment. On January 7, 2016, the remaining objections to the Amended Plan were dismissed. On April 27, 2016, the Amended Plan became effective and all the remaining conditions to the Agreement were satisfied. The Company fully satisfied its obligation under the Agreement by making a discounted payment in the second quarter of 2016. The Company's payments totaled \$524 million, of which \$518 million was related to asbestos reserves. The Company's obligations under the Agreement were included in its claims and claim adjustment expense reserves at March 31, 2016 and December 31, 2015.

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. While the Company believes that over the past several years there has been a reduction in the volatility associated with the Company's overall asbestos exposure, there nonetheless remains a high degree of uncertainty with respect to future exposure from 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.

Net asbestos paid loss and loss expenses in the first six months of 2016 were \$575 million, compared with \$623 million in the same period of 2015. Net payments in the first six months of 2016 included the payment of the \$518 million settlement amounts related to PPG as described above. Net payments in the first six months of 2015 included the payment of the \$502 million settlement amounts related to the Settlement of Asbestos Direct Action Litigation as described above and in more detail in note 16 of notes to the consolidated financial statements in the Company's 2015 Annual Report. Net asbestos reserves were \$1.23 billion at June 30, 2016, compared with \$1.73 billion at June 30, 2015.

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

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(at and for the six months ended June 30, in millions)	2016	2015
Beginning reserves:		
Gross	\$ 1,989	\$ 2,520
Ceded	(179)	(163)
Net	1,810	2,357
Incurred losses and loss expenses:		
Gross		
Ceded		
Net		
Paid loss and loss expenses:		
Gross	671	664
Ceded	(96)	(41)
Net	575	623
Foreign exchange and other:		
Gross	(1)	
Ceded		
Net	(1)	
Ending reserves:		
Gross	1,317	1,856
Ceded	(83)	(122)
Net	\$ 1,234	\$ 1,734

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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 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.

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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. As a result of these factors, the Company increased its net environmental reserves by \$82 million and \$72 million in the second quarters of 2016 and 2015, respectively.

Net environmental paid loss and loss expenses in the first six months of 2016 were \$23 million, compared with \$25 million in the same period of 2015. At June 30, 2016, approximately 94% of the net environmental reserve (approximately \$394 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 claims and the Company's experience in resolving those claims. The balance, approximately 6% of the net environmental reserve (approximately \$27 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 six months ended June 30, in millions)	2016	2015
<b>Beginning reserves:</b>		
Gross	\$ 375	\$ 353
Ceded	(14)	(7)
Net	361	346
<b>Incurred losses and loss expenses:</b>		
Gross	87	81
Ceded	(5)	(9)
Net	82	72
<b>Paid loss and loss expenses:</b>		
Gross	24	26
Ceded	(1)	(1)
Net	23	25
<b>Foreign exchange and other:</b>		
Gross	1	(2)
Ceded		
Net	1	(2)
<b>Ending reserves:</b>		
Gross	439	406
Ceded	(18)	(15)
Net	\$ 421	\$ 391

**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 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 June 30, 2016 were \$72.47 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 June 30, 2016 was \$63.31 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 June 30, 2016 and December 31, 2015. Below investment grade securities represented 2.8% of the total fixed maturity investment portfolio at both June 30, 2016 and December 31, 2015. The average effective duration of fixed maturities and short-term securities was 3.9 (4.2 excluding short-term securities) at both June 30, 2016 and December 31, 2015.

*Obligations of States, Municipalities and Political Subdivisions*

The Company's fixed maturity investment portfolio at June 30, 2016 and December 31, 2015 included \$33.63 billion and \$31.41 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 June 30, 2016 and December 31, 2015 were \$5.72 billion and \$6.06 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, which were created to satisfy their responsibility for payments of principal and interest. 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 June 30, 2016, approximately 97% were rated at A3 or above, and approximately 92% 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 June 30, 2016. The average credit rating of the entire municipal bond portfolio was Aa1 at June 30, 2016, 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 June 30, 2016 and December 31, 2015 included \$1.83 billion and \$1.98 billion, respectively, of residential mortgage-backed securities, including pass-through-securities and collateralized mortgage obligations (CMOs), all of which are subject to prepayment risk (either shortening or lengthening of duration). 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

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ranges. Included in the totals at June 30, 2016 and December 31, 2015 were \$616 million and \$676 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 \$1.22 billion and \$1.30 billion at June 30, 2016 and December 31, 2015, respectively. Approximately 48% of the Company's CMO holdings at both June 30, 2016 and December 31, 2015 were guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC. The average credit rating of the \$635 million and \$683 million of non-guaranteed CMO holdings was Baa1 and Baa2 at June 30, 2016 and December 31, 2015, respectively. The average credit rating of all of the above securities was Aa2 and Aa3 at June 30, 2016 and December 31, 2015, respectively. 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 2015 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 2015 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. 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 June 30, 2016 and December 31, 2015, the carrying value of the Company's other investments was \$3.49 billion and \$3.45 billion, respectively.

**CATASTROPHE REINSURANCE COVERAGE**

The Company's catastrophe reinsurance coverage is discussed in the Catastrophe Reinsurance section of Part I Item 1 Business in the Company 2015 Annual Report. Except as discussed below, there have been no material changes to the Company's catastrophe reinsurance coverage from that reported in the Company's 2015 Annual Report.

*Catastrophe Bonds.* In May 2016, an indemnity reinsurance agreement with Long Point Re III Ltd. that provided up to \$300 million of coverage for certain losses expired as scheduled. With respect to the Company's remaining indemnity reinsurance agreement with Long Point Re III Ltd., the attachment point and maximum limit were reset as required annually to adjust the expected loss of the layer within a predetermined range. For the period May 16, 2016 through and including May 15, 2017, the Company will be entitled to begin recovering amounts under this reinsurance agreement if the covered losses in the covered area for a single occurrence reach an initial attachment amount of \$1.968 billion. The full \$300 million coverage amount is available on a proportional basis until such covered losses reach a maximum \$2.468 billion.

*Other Catastrophe Reinsurance Treaties.* Catastrophe reinsurance treaties that renewed on July 1, 2016 were as follows:

- *Northeast General Catastrophe Reinsurance Treaty.* The northeast general catastrophe treaty provides up to \$800 million part of \$850 million of coverage, subject to a \$2.25 billion retention, for certain losses arising from hurricanes, tornados, hail storms, earthquakes and winter storm or freeze losses from Virginia to Maine for the period July 1, 2016 through and including June 30, 2017. Losses from a covered event (occurring over several days) anywhere in the United States, Canada, the Caribbean and Mexico and waters contiguous thereto may be used to satisfy the retention. Recoveries under the catastrophe bonds (if any) would be first applied to reduce losses subject to this treaty.
- *Middle Markets Earthquake Catastrophe Excess-of-Loss Reinsurance Treaty.* This earthquake excess-of-loss treaty provides for up to \$150 million part of \$165 million of coverage, subject to a \$70 million retention, for losses arising from an earthquake, including fire following and sprinkler leakage incurred under policies written by Technology, Public Sector Services and Commercial Accounts in the Company's Business and International Insurance segment for the period July 1, 2016 through and including June 30, 2017.

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- *Canadian Property Catastrophe Excess-of-Loss Reinsurance Contract.* This contract, effective for the period July 1, 2016 through and including June 30, 2017, covers the accumulation of net property losses arising out of one occurrence on business written by the Company's Canadian businesses. The treaty covers all property written by the Company's Canadian businesses for Canadian insureds, including, but not limited to, habitational property, commercial property, inland marine, ocean marine and auto physical damages exposures, with respect to risks located worldwide, written for Canadian insureds. The treaty provides coverage for 50% of losses in excess of C\$100 million (US\$77 million at June 30, 2016), up to C\$200 million (US\$154 million at June 30, 2016) and for 100% of losses in excess of C\$200 million (US\$154 million at June 30, 2016), up to C\$600 million (US\$462 million at June 30, 2016).

The Company regularly reviews its catastrophe reinsurance coverage and may adjust such coverage in the future.

**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 2015 Annual Report.

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

(in millions)	June 30, 2016	December 31, 2015
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	\$ 3,530	\$ 3,848
Allowance for uncollectible reinsurance	(151)	(157)
<b>Net reinsurance recoverables</b>	<b>3,379</b>	<b>3,691</b>
Mandatory pools and associations	2,026	2,015
Structured settlements	3,198	3,204
<b>Total reinsurance recoverables</b>	<b>\$ 8,603</b>	<b>\$ 8,910</b>

The \$312 million decline in net reinsurance recoverables from December 31, 2015 primarily reflected the impact of cash collections in the first six months of 2016.

**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 the Business and International Insurance segment, 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. In the Business and International Insurance segment, the Company expects that domestic renewal premium changes during the remainder of 2016 and into 2017 will remain positive and will be broadly consistent with the levels attained in the first six months of 2016. 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 2016 and into 2017 could be somewhat



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higher, broadly consistent with or somewhat lower than the levels attained in the first six months of 2016. In the Bond & Specialty Insurance segment, the Company expects that renewal premium changes with respect to management liability business during the remainder of 2016 and into 2017 will remain positive, but will be slightly lower than the levels attained in the first six months of 2016. With respect to surety business within the Bond & Specialty Insurance segment, the Company expects that net written premium volume during the remainder of 2016 and into 2017 will be slightly higher than the levels attained in the same periods of 2015 and 2016. In the Personal Insurance segment, the Company expects that Agency Auto renewal premium changes during the remainder of 2016 and into 2017 will remain positive and will be slightly higher than the levels attained in the first six months of 2016, and Agency Homeowners and Other renewal premium changes during the remainder of 2016 and into 2017 will remain positive, and will be broadly consistent with the levels attained in the first six months of 2016. 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 2016 and into 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 uncertainty regarding a variety of domestic and international matters, such as the U.S. Federal budget and taxes, implementation of the Affordable Care Act, the political and regulatory environment, geopolitical instability, the United Kingdom's expected withdrawal from the European Union, slow growth and economic uncertainty in the United States and in various parts of the world, 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 low levels of economic activity could impact exposure changes at renewal and the Company's ability to write business at acceptable rates. Additionally, low 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 in the remainder of 2016 and into 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 experienced significant catastrophe and non-catastrophe weather-related losses in a number of periods during the past decade, which adversely impacted its results of operations. The Company's results of operations could be adversely impacted if significant catastrophe and non-catastrophe weather-related losses were to occur.

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 in all of the Company's segments. 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 the steps taken by the federal government in recent years, particularly by the Federal Reserve, to improve 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, our financial results could be materially and adversely affected in the Company's 2015 Annual Report.

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In Business and International Insurance, the Company expects underlying underwriting margins and the combined ratio excluding catastrophe losses and prior year reserve development ( underlying combined ratio ) during the remainder of 2016 and into 2017 will be broadly consistent with those in the same periods of 2015 and 2016, reflecting the impact of loss trends in excess of earned pricing, largely offset by lower (and more normalized) levels of what the Company defines as large losses and non-catastrophe weather-related losses.

In Bond & Specialty Insurance, the Company expects underlying underwriting margins and the underlying combined ratio during the remainder of 2016 and into 2017 will be broadly consistent with those in the same periods of 2015 and 2016.

In Personal Insurance, the Company expects underlying underwriting margins during the remainder of 2016 and into 2017 will be lower and the underlying combined ratio will be higher than in the same periods of 2015 and 2016. In Agency Automobile, the Company expects underlying underwriting margins during the remainder of 2016 will be slightly lower and the underlying combined ratio will be higher than in the same period of 2015. The increase in the underlying combined ratio reflects the impact of significant new business levels in recent years. For the early part of 2017, the Company expects underlying underwriting margins to be slightly higher and the underlying combined ratio to be broadly consistent with the comparable period of 2016. The underlying combined ratio reflects the impact of significant new business levels in recent years, largely offset by lower (and more normalized) levels of loss activity. In Agency Homeowners and Other, the Company expects underlying underwriting margins during the remainder of 2016 and into 2017 will be lower and the underlying combined ratio will be higher than in the same periods of 2015 and 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 3.9 (4.2 excluding short-term securities) at June 30, 2016. 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 June 30, 2016, 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. Interest rates remain at very low levels by historical standards. Based on the current interest rate environment, the Company estimates that the impacts of lower reinvestment yields and a lower level of fixed maturity investments could, during the remainder of 2016 and into 2017, result in approximately \$20 million to \$25 million of lower after-tax net investment income from that portfolio on a quarterly basis as compared to the corresponding quarters of 2015 and 2016. Net investment income from the non-fixed maturity investment portfolio in the first six months of 2016 was lower than in the same period of 2015. Given recent levels of market volatility, there is more than the usual uncertainty as to the impact of future market conditions on net investment income from the non-fixed maturity investment portfolio during the remainder of 2016 and into 2017. If general economic conditions and/or investment market conditions deteriorate during the remainder of 2016 and into 2017, the Company could experience a further reduction in net

investment income and/or significant realized investment losses, including impairments.

The Company had a net pre-tax unrealized investment gain of \$3.34 billion (\$2.18 billion after-tax) in its fixed maturity investment portfolio at June 30, 2016. 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.

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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 economic downturn, our business could be materially and adversely affected* and *Our investment portfolio may suffer reduced returns or material realized or unrealized losses* included in *Part I Item 1A Risk Factors* in the Company's 2015 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 subject to a number of risks associated with our business outside the United States* included in *Part I Item 1A Risk Factors* in the Company's 2015 Annual Report and see *Part II Item 7A Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Exchange Rate Risk* in the Company's 2015 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 operating 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 2016, see *Liquidity and Capital Resources* herein. 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 Disclosure About Market Risk* in the Company's 2015 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 2015 Annual Report and *Critical Accounting Estimates* herein.

## **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.

*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 2015 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 June 30, 2016, TRV held total cash and short-term invested assets in the United States aggregating \$1.75 billion and having a weighted average maturity of 69 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 \$1.75 billion at June 30, 2016 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.

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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 June 30, 2016, 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 June 30, 2016.

TRV has a shelf registration statement 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 June 30, 2016. 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 \$200 million, to provide a portion of the capital needed to support its obligations at Lloyd's at June 30, 2016. 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.

**Operating Activities**

Net cash flows provided by operating activities in the first six months of 2016 and 2015 were \$1.29 billion and \$875 million, respectively. Cash flows in the first six months of 2016 included the Company's \$524 million payment in the second quarter of 2016 related to the settlement of the PPG Industries, Inc. litigation as described in more detail in the Asbestos Claims and Litigation section herein. Cash flows in the first six months of 2015 included the Company's \$579 million payment in the first quarter of 2015 related to the settlement of the Asbestos Direct Action Litigation as described in more detail in the Asbestos Claims and Litigation section herein.

**Investing Activities**

Net cash flows used in investing activities in the first six months of 2016 were \$91 million, compared with net cash flows provided by investing activities of \$765 million in the first six months of 2015. The Company's consolidated total investments at June 30, 2016 increased by \$2.00 billion, or 3% from year-end 2015, primarily reflecting an increase in the unrealized appreciation of investments and net cash flows provided by operating activities, partially offset by common share repurchases and dividends paid to shareholders.

**Financing Activities**

Net cash flows used in financing activities in the first six months of 2016 and 2015 were \$1.31 billion and \$1.69 billion, respectively. The totals in both periods primarily reflected common share repurchases and dividends to shareholders, partially offset by the proceeds from employee stock option exercises. The total in 2016 also included the impact of the issuance and payment of debt as described in more detail in note 7 of

notes to the consolidated financial statements herein.

*Dividends.* Dividends paid to shareholders were \$375 million and \$369 million in the first six months of 2016 and 2015, 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 July 21, 2016, the Company announced that it declared a regular quarterly dividend of \$0.67 per share, payable September 30, 2016, to shareholders of record on September 9, 2016.



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*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 and six months ended June 30, 2016, the Company repurchased 4.9 million and 10.0 million shares, respectively, under its share repurchase authorization, for a total cost of \$550 million and \$1.10 billion, respectively. The average cost per share repurchased was \$112.12 and \$110.26, respectively. At June 30, 2016, the Company had \$2.23 billion of capacity remaining under the share repurchase authorization.

*Capital Structure.* The following table summarizes the components of the Company's capital structure at June 30, 2016 and December 31, 2015.

(in millions)	June 30, 2016	December 31, 2015
Debt:		
Short-term	\$ 100	\$ 500
Long-term	6,361	5,861
Net unamortized fair value adjustments and debt issuance costs	(25)	(17)
Total debt	6,436	6,344
Shareholders' equity:		
Common stock and retained earnings, less treasury stock	23,749	23,755
Accumulated other comprehensive income (loss)	965	(157)
Total shareholders' equity	24,714	23,598
Total capitalization	\$ 31,150	\$ 29,942

On May 11, 2016, the Company issued \$500 million aggregate principal amount of 3.75% senior notes that will mature on May 15, 2046. The Company used a portion of the net proceeds of this offering to retire its \$400 million aggregate principal amount of 6.25% senior notes which matured on June 20, 2016, and intends to use the remaining portion for general corporate purposes, including the potential redemption of its 6.25% fixed-to-floating rate junior subordinated debentures due March 15, 2067. See note 7 of notes to the consolidated financial statements herein for further discussion.

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

(dollars in millions)	June 30, 2016	December 31, 2015
Total capitalization excluding net unrealized gain on investments	\$ 28,809	\$ 28,653

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Net unrealized gain on investments, net of taxes		<b>2,341</b>		1,289
Total capitalization	\$	<b>31,150</b>	\$	29,942
Debt-to-total capital ratio		<b>20.7%</b>		21.2%
Debt-to-total capital ratio excluding net unrealized gain on investments		<b>22.3%</b>		22.1%

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 opinion of the Company's management, the debt-to-total capital ratio calculated on this basis provides another useful metric

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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 22.3% at June 30, 2016 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 (S&P). There were no rating agency actions taken with respect to the Company since April 21, 2016, the date on which the Company's Form 10-Q for the quarter ended March 31, 2016 was filed with the Securities and Exchange Commission. For additional discussion of ratings, see Part I Item 1 Business Ratings in the Company's 2015 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 2015 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, 2015.

**Claims and Claim Adjustment Expense Reserves**

The table below displays the Company's gross claims and claim adjustment expense reserves by product line. Additional liabilities may arise for amounts in excess of the current related 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. In particular, a portion of the Company's gross claims and claim adjustment expense reserves (totaling \$1.76 billion at June 30, 2016) are for asbestos and environmental claims and related litigation. 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. See the preceding discussion of Asbestos Claims and Litigation and Environmental Claims and Litigation.

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

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(in millions)	June 30, 2016			December 31, 2015		
	Case	IBNR	Total	Case	IBNR	Total
General liability	\$ 4,937	\$ 7,011	\$ 11,948	\$ 5,588	\$ 7,120	\$ 12,708
Commercial property	712	430	1,142	715	397	1,112
Commercial multi-peril	1,840	1,978	3,818	1,888	1,750	3,638
Commercial automobile	2,105	1,206	3,311	2,068	1,253	3,321
Workers compensation	10,206	8,749	18,955	10,269	8,470	18,739
Fidelity and surety	225	404	629	229	475	704
Personal automobile	1,742	816	2,558	1,710	842	2,552
Homeowners and personal other	619	519	1,138	601	399	1,000
International and other	2,860	1,572	4,432	2,808	1,690	4,498
Property-casualty	25,246	22,685	47,931	25,876	22,396	48,272
Accident and health	22		22	23		23
<b>Claims and claim adjustment expense reserves</b>	<b>\$ 25,268</b>	<b>\$ 22,685</b>	<b>\$ 47,953</b>	<b>\$ 25,899</b>	<b>\$ 22,396</b>	<b>\$ 48,295</b>

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The \$342 million decrease in gross claims and claim adjustment expense reserves since December 31, 2015 primarily reflected the impact of the Company's \$524 million payment in the second quarter of 2016 related to the settlement of the PPG Industries, Inc. litigation as described in more detail in the "Asbestos Claims and Litigation" section herein and net favorable prior year reserve development, partially offset by catastrophe losses incurred in the first six months of 2016 and changes in foreign currency exchange rates.

Asbestos and environmental reserves are included in the General liability, Commercial multi-peril and International and other lines in the summary table above. 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.

**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 2015 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 operating income, investment income and performance, loss costs, 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 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; and
- strategic initiatives to improve profitability and competitiveness.

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:

- 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;
- during or following a period of financial market disruption, economic downturn or prolonged period of slow economic growth, the Company's business could be materially and adversely affected;
- 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, the Company's financial results could be materially and adversely affected;
- the Company's investment portfolio 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 expected 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 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;

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**FORWARD-LOOKING STATEMENTS, Continued**

- the effects of emerging claim and coverage issues on the Company's business are uncertain;
- the intense competition that the Company faces 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 could adversely affect the Company;
- the Company may not be able to collect all amounts due to it from reinsurers and reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all;
- the Company is exposed to credit risk in certain of its business and investment operations including through the utilization of reinsurance or structured settlements, as well as guarantees or indemnifications from 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;
- changes in federal regulation could impose significant burdens on the Company and otherwise adversely impact the Company's results;
- 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;

- 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 expected 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;
- 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 to existing accounting standards may adversely impact the Company's reported results;
- changes in U.S. tax laws or in the tax laws of other jurisdictions in which the Company operates could adversely impact the Company; 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.



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**FORWARD-LOOKING STATEMENTS, Continued**

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 2015 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 2015 Annual Report as updated by the Company's periodic filings with the Securities and Exchange Commission.

**WEBSITE AND SOCIAL MEDIA DISCLOSURE**

From time to time, 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 accessible through and posted on the Company's website at <http://investor.travelers.com>, its Facebook page at <http://www.facebook.com/travelers> and its Twitter account (@Travelers) at <http://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 2015 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 2015 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 June 30, 2016. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2016, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

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 June 30, 2016 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, or automating manual processes. 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.

Table of Contents**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 2015 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 2015 Annual Report. There have been no material changes to the risk factors disclosed in Part I Item 1A of the Company's 2015 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)
April 1, 2016	April 30, 2016	680,900	\$ 109.65	680,900	\$ 2,709
May 1, 2016	May 31, 2016	2,755,520	\$ 111.82	2,755,394	\$ 2,401
June 1, 2016	June 30, 2016	1,474,186	\$ 113.82	1,469,166	\$ 2,234
<b>Total</b>		4,910,606	\$ 112.12	4,905,460	\$ 2,234

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.

The Company acquired 5,146 shares for a total cost of approximately \$0.6 million during the three months ended June 30, 2016 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 awards and shares used by employees to cover the exercise price of certain stock options that were exercised.

**Item 5. OTHER INFORMATION**

*Executive Ownership and Sales.* All of the Company's executive officers hold equity in the Company in excess of the required level under 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 April 1, 2016. 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 sell shares of common stock of the Company in the open market, in private transactions or to the Company. To effect such sales, some of the Company's executives have entered into, and may in the future 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.

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**Item 5. OTHER INFORMATION, Continued**

As of the date of this report, Jay S. Benet, Vice Chairman and Chief Financial Officer, was the only named executive officer (i.e., an executive officer named in the compensation disclosures in the Company's most recent proxy statement) that has entered into a Rule 10b5-1 trading plan that remains in effect. Under the Company's stock ownership guidelines, Mr. Benet has a target ownership level established as the lesser of 30,000 shares or the equivalent value of 300% of base salary (as such amount is calculated for purposes of the stock ownership guidelines). 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 SEC on April 1, 2016.

**Item 6. EXHIBITS**

See Exhibit Index.

**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: July 21, 2016

By

/S/ KENNETH F. SPENCE III

**Kenneth F. Spence III**

**Executive Vice President and General  
Counsel**

**(Authorized Signatory)**

Date: July 21, 2016

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	Amended and Restated Bylaws of the Company, effective as of August 5, 2014, were filed as Exhibit 3.2 to the Company's current report on Form 8-K filed on August 11, 2014, and are incorporated herein by reference.
10.1	The Travelers Companies, Inc. Amended and Restated 2014 Stock Incentive Plan was filed as Exhibit 10.1 to the Company's current report on Form 8-K filed on May 19, 2016, and is incorporated herein by reference.
10.2	Current Director Compensation Program, effective as of May 19, 2016.
10.3	Separation Agreement, dated June 2, 2016, between The Travelers Indemnity Company and Doreen Spadorcia.
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 June 30, 2016 formatted in XBRL: (i) Consolidated Statement of Income for the three months and six months ended June 30, 2016 and 2015; (ii) Consolidated Statement of Comprehensive Income for the three months and six months ended June 30, 2016 and 2015; (iii) Consolidated Balance Sheet at June 30, 2016 and December 31, 2015; (iv) Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2016 and 2015; (v) Consolidated Statement of Cash Flows for the six months ended June 30, 2016 and 2015; 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.

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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.