

TRAVELERS COMPANIES, INC.

Form 10-Q

April 21, 2016

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the Registrant's Common Stock, without par value, outstanding at April 18, 2016 was 292,394,631.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended March 31, 2016

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(in millions, except per share amounts)

For the three months ended March 31,	2016	2015
Revenues		
Premiums	\$ 5,981	\$ 5,888
Net investment income	544	592
Fee income	117	114
Net realized investment gains (losses) (1)	(9)	10
Other revenues	53	25
Total revenues	6,686	6,629
Claims and expenses		
Claims and claim adjustment expenses	3,712	3,431
Amortization of deferred acquisition costs	971	963
General and administrative expenses	995	995
Interest expense	91	92
Total claims and expenses	5,769	5,481
Income before income taxes	917	1,148
Income tax expense	226	315
Net income	\$ 691	\$ 833
Net income per share		
Basic	\$ 2.33	\$ 2.58
Diluted	\$ 2.30	\$ 2.55
Weighted average number of common shares outstanding		
Basic	294.2	320.8
Diluted	297.9	324.5
Cash dividends declared per share	\$ 0.61	\$ 0.55

(1) Total other-than-temporary impairment (OTTI) losses were \$(28) million and \$(4) million for the three months ended March 31, 2016 and 2015, respectively. Of total OTTI, credit losses of \$(18) million and \$(3) million for the three months ended March 31, 2016 and 2015, respectively, were recognized in net realized investment gains (losses). In addition, unrealized losses from other changes in total OTTI of \$(10) million and \$(1) million for the three months ended March 31, 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)

For the three months ended March 31,	2016	2015
Net income	\$ 691	\$ 833
Other comprehensive income (loss):		
Changes in net unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income	714	169
Having credit losses recognized in the consolidated statement of income	5	(5)
Net changes in benefit plan assets and obligations	16	24
Net changes in unrealized foreign currency translation	103	(274)
Other comprehensive income (loss) before income taxes	838	(86)
Income tax expense	267	25
Other comprehensive income (loss), net of taxes	571	(111)
Comprehensive income	\$ 1,262	\$ 722

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Fixed maturities, available for sale, at fair value (amortized cost \$59,490 and \$58,878)	\$ 61,985	\$ 60,658
Equity securities, available for sale, at fair value (cost \$528 and \$528)	710	705
Real estate investments	927	989
Short-term securities	4,587	4,671
Other investments	3,469	3,447
Total investments	71,678	70,470
Cash	361	380
Investment income accrued	599	642
Premiums receivable	6,845	6,437
Reinsurance recoverables	8,803	8,910
Ceded unearned premiums	805	656
Deferred acquisition costs	1,899	1,849
Deferred taxes		296
Contractholder receivables	4,419	4,374
Goodwill	3,588	3,573
Other intangible assets	275	279
Other assets	2,408	2,318
Total assets	\$ 101,680	\$ 100,184
Liabilities		
Claims and claim adjustment expense reserves	\$ 48,640	\$ 48,295
Unearned premium reserves	12,331	11,971
Contractholder payables	4,419	4,374
Payables for reinsurance premiums	438	296
Deferred taxes	82	
Debt	6,344	6,344
Other liabilities	5,260	5,306
Total liabilities	77,514	76,586
Shareholders equity		
Common stock (1,750.0 shares authorized; 292.4 and 295.9 shares issued and outstanding)	22,269	22,172
Retained earnings	30,454	29,945
Accumulated other comprehensive income (loss)	414	(157)
Treasury stock, at cost (473.2 and 467.6 shares)	(28,971)	(28,362)
Total shareholders equity	24,166	23,598
Total liabilities and shareholders equity	\$ 101,680	\$ 100,184

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

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

(in millions)

For the three months ended March 31,	2016	2015
Common stock		
Balance, beginning of year	\$ 22,172	\$ 21,843
Employee share-based compensation	47	66
Compensation amortization under share-based plans and other changes	50	73
Balance, end of period	22,269	21,982
Retained earnings		
Balance, beginning of year	29,945	27,251
Net income	691	833
Dividends	(181)	(178)
Other	(1)	
Balance, end of period	30,454	27,906
Accumulated other comprehensive income (loss), net of tax		
Balance, beginning of year	(157)	880
Other comprehensive income (loss)	571	(111)
Balance, end of period	414	769
Treasury stock (at cost)		
Balance, beginning of year	(28,362)	(25,138)
Treasury stock acquired share repurchase authorization	(550)	(600)
Net shares acquired related to employee share-based compensation plans	(59)	(72)
Balance, end of period	(28,971)	(25,810)
Total shareholders equity	\$ 24,166	\$ 24,847
Common shares outstanding		
Balance, beginning of year	295.9	322.2
Treasury stock acquired share repurchase authorization	(5.1)	(5.6)
Net shares issued under employee share-based compensation plans	1.6	2.1
Balance, end of period	292.4	318.7

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

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(in millions)

For the three months ended March 31,	2016	2015
Cash flows from operating activities		
Net income	\$ 691	\$ 833
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment (gains) losses	9	(10)
Depreciation and amortization	213	225
Deferred federal income tax expense	105	133
Amortization of deferred acquisition costs	971	963
Equity in income from other investments	(17)	(43)
Premiums receivable	(393)	(258)
Reinsurance recoverables	126	69
Deferred acquisition costs	(1,014)	(987)
Claims and claim adjustment expense reserves	226	(561)
Unearned premium reserves	328	185
Other	(395)	(350)
Net cash provided by operating activities	850	199
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	1,748	2,830
Proceeds from sales of investments:		
Fixed maturities	421	906
Equity securities	14	11
Real estate investments	69	7
Other investments	186	146
Purchases of investments:		
Fixed maturities	(2,700)	(3,325)
Equity securities	(12)	(8)
Real estate investments	(7)	(6)
Other investments	(162)	(168)
Net sales (purchases) of short-term securities	85	(134)
Securities transactions in course of settlement	291	305
Other	(79)	(90)
Net cash provided by (used in) investing activities	(146)	474
Cash flows from financing activities		
Treasury stock acquired share repurchase authorization	(550)	(600)
Treasury stock acquired net employee share-based compensation	(59)	(71)
Dividends paid to shareholders	(180)	(177)
Issuance of common stock employee share options	64	90
Excess tax benefits from share-based payment arrangements		27
Net cash used in financing activities	(725)	(731)
Effect of exchange rate changes on cash	2	(8)
Net decrease in cash	(19)	(66)
Cash at beginning of year	380	374
Cash at end of period	\$ 361	\$ 308

Supplemental disclosure of cash flow information

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Income taxes paid	\$	63	\$	126
Interest paid	\$	42	\$	34

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.

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.

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 March 31, in millions)	Business and International Insurance		Bond & Specialty Insurance		Personal Insurance		Total Reportable Segments	
2016								
Premiums	\$	3,599	\$	508	\$	1,874	\$	5,981
Net investment income		415		52		77		544
Fee income		114				3		117
Other revenues		33		3		14		50
Total operating revenues (1)	\$	4,161	\$	563	\$	1,968	\$	6,692
Operating income (1)	\$	476	\$	144	\$	139	\$	759
2015								
Premiums	\$	3,620	\$	504	\$	1,764	\$	5,888
Net investment income		454		56		82		592
Fee income		111				3		114
Other revenues		8		5		12		25
Total operating revenues (1)	\$	4,193	\$	565	\$	1,861	\$	6,619
Operating income (1)	\$	515	\$	124	\$	252	\$	891

(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 March 31,	
	2016	2015
Revenue reconciliation		
Earned premiums		
Business and International Insurance:		
Domestic:		
Workers compensation	\$ 981	\$ 962
Commercial automobile	491	468
Commercial property	437	440
General liability	482	468
Commercial multi-peril	782	774
Other	5	10
Total Domestic	3,178	3,122
International	421	498
Total Business and International Insurance	3,599	3,620
Bond & Specialty Insurance:		
Fidelity and surety	230	225
General liability	234	236
Other	44	43
Total Bond & Specialty Insurance	508	504
Personal Insurance:		
Automobile	936	836
Homeowners and Other	938	928
Total Personal Insurance	1,874	1,764
Total earned premiums	5,981	5,888
Net investment income	544	592
Fee income	117	114
Other revenues	50	25
Total operating revenues for reportable segments	6,692	6,619
Other revenues	3	
Net realized investment gains (losses)	(9)	10
Total consolidated revenues	\$ 6,686	\$ 6,629
Income reconciliation, net of tax		
Total operating income for reportable segments	\$ 759	\$ 891
Interest Expense and Other (1)	(61)	(64)
Total operating income	698	827
Net realized investment gains (losses)	(7)	6
Total consolidated net income	\$ 691	\$ 833

(1) The primary component of Interest Expense and Other for the three months ended March 31, 2016 and 2015 was after-tax interest expense of \$59 million and \$60 million, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)	March 31, 2016	December 31, 2015
Asset reconciliation:		
Business and International Insurance	\$ 80,961	\$ 79,692
Bond & Specialty Insurance	7,537	7,360
Personal Insurance	12,905	12,748
Total assets for reportable segments	101,403	99,800
Other assets (1)	277	384
Total consolidated assets	\$ 101,680	\$ 100,184

(1) The primary component of other assets at March 31, 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 March 31, 2016, in millions)	Amortized Cost	Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,128	\$ 27	\$ 1	\$ 2,154
Obligations of states, municipalities and political subdivisions:				
Local general obligation	13,242	690	1	13,931
Revenue	9,914	563	3	10,474
State general obligation	1,944	102		2,046
Pre-refunded	5,640	231		5,871
Total obligations of states, municipalities and political subdivisions	30,740	1,586	4	32,322

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Debt securities issued by foreign governments	1,794	52		1,846
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,799	131	1	1,929
All other corporate bonds	22,921	834	135	23,620
Redeemable preferred stock	108	6		114
Total	\$ 59,490	\$ 2,636	\$ 141	\$ 61,985

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

Pre-refunded bonds of \$5.87 billion and \$6.06 billion at March 31, 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 \$421 million and \$906 million during the three months ended March 31, 2016 and 2015, respectively. Gross gains of \$23 million and \$19 million and gross losses of \$7 million and \$1 million were realized on those sales during the three months ended March 31, 2016 and 2015, respectively.

Equity Securities

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

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(at March 31, 2016, in millions)	Cost		Gross Unrealized			Fair Value		
			Gains	Losses				
Public common stock	\$	383	\$	174	\$	8	\$	549
Non-redeemable preferred stock		145		24		8		161
Total	\$	528	\$	198	\$	16	\$	710

(at December 31, 2015, in millions)	Cost		Gross Unrealized			Fair Value		
			Gains	Losses				
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 \$14 million and \$11 million during the three months ended March 31, 2016 and 2015, respectively. Gross gains of \$3 million and \$2 million and gross losses of \$2 million and \$0 million were realized on those sales during the three months ended March 31, 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 March 31, 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 March 31, 2016, in millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 171	\$	\$ 10	\$ 1	\$ 181	\$ 1
Obligations of states, municipalities and political subdivisions	681	3	141	1	822	4
Debt securities issued by foreign governments	25				25	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	98		73	1	171	1
All other corporate bonds	2,010	70	941	65	2,951	135
Redeemable preferred stock	22				22	
Total fixed maturities	3,007	73	1,165	68	4,172	141
Equity securities						
Public common stock	54	8	34		88	8
Non-redeemable preferred stock	29	1	59	7	88	8
Total equity securities	83	9	93	7	176	16
Total	\$ 3,090	\$ 82	\$ 1,258	\$ 75	\$ 4,348	\$ 157

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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
Fixed maturities						
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	
Total fixed maturities	11,126	224	937	96	12,063	320
Equity securities						
Public common stock	48	6	33	1	81	7
Non-redeemable preferred stock	47	3	38	3	85	6
Total equity securities	95	9	71	4	166	13
Total	\$ 11,221	\$ 233	\$ 1,008	\$ 100	\$ 12,229	\$ 333

Unrealized losses for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at March 31, 2016 totaled \$50 million, representing less than 1% of the combined fixed maturity and equity security portfolios on a pre-tax basis and less than 1% of shareholders' equity on an after-tax basis.

Impairment Charges

Impairment charges included in net realized investment gains (losses) in the consolidated statement of income were \$18 million and \$3 million for the three months ended March 31, 2016 and 2015, respectively.

For fixed maturities held at March 31, 2016 and 2015, the cumulative amount of credit losses recognized in the consolidated statement of income from other-than-temporary impairments (OTTI) was \$92 million and \$94 million, respectively, 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 three months ended March 31, 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 March 31, 2016 and December 31, 2015, the Company had \$400 million notional value of open U.S. Treasury futures contracts. Net realized investment gains (losses) in the three months ended March 31, 2016 and 2015 included net losses of \$19 million and \$10 million, respectively, related to U.S. Treasury futures contracts.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS

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

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

Valuation of Investments Reported at Fair Value in Financial Statements

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both March 31, 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 \$116 million and \$101 million at March 31, 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 \$93 million and \$117 million at March 31, 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 March 31, 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 March 31, 2016, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,154	\$ 2,154	\$	\$
Obligations of states, municipalities and political subdivisions	32,322		32,309	13
Debt securities issued by foreign governments	1,846		1,846	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,929		1,927	2
All other corporate bonds	23,620		23,433	187
Redeemable preferred stock	114	3	104	7
Total fixed maturities	61,985	2,157	59,619	209
Equity securities				
Public common stock	549	549		
Non-redeemable preferred stock	161	64	97	
Total equity securities	710	613	97	
Other investments	55	16		39
Total	\$ 62,750	\$ 2,786	\$ 59,716	\$ 248

During the quarter ended March 31, 2016, the Company's transfers between Level 1 and Level 2 were not significant.

(at December 31, 2015, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
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
Total fixed maturities	60,658	2,197	58,243	218

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Equity securities							
Public common stock		543		543			
Non-redeemable preferred stock		162		55		107	
Total equity securities		705		598		107	
Other investments		56		18			38
Total	\$	61,419	\$	2,813	\$	58,350	\$ 256

During 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 three months ended March 31, 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 March 31, 2016, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	\$ 4,587	\$ 4,587	\$ 1,174	\$ 3,378	\$ 35
Financial liabilities:					
Debt	\$ 6,244	\$ 7,419	\$	\$ 7,419	\$
Commercial paper	\$ 100	\$ 100	\$	\$ 100	\$

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

The Company utilized a pricing service to estimate fair value for approximately 98% and 99% of short-term securities at March 31, 2016 and December 31, 2015, respectively. 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 March 31, 2016 and December 31, 2015.

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The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the three months ended March 31, 2016 or year 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 March 31, 2016 and December 31, 2015:

(in millions)	March 31, 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
Total	\$ 3,588	\$ 3,573

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

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The following tables present a summary of the Company's other intangible assets by major asset class at March 31, 2016 and December 31, 2015:

(at March 31, 2016, in millions)	Gross Carrying Amount		Accumulated Amortization		Net
Subject to amortization (1)	\$ 209	\$	\$ 151	\$	\$ 58
Not subject to amortization	217				217
Total	\$ 426	\$	\$ 151	\$	\$ 275

(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 \$3 million and \$11 million for the three months ended March 31, 2016 and 2015, respectively. Intangible asset amortization expense is estimated to be \$8 million for the remainder of 2016, \$9 million in 2017, \$8 million in 2018, \$6 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 three months ended March 31, 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)
Balance, December 31, 2015	\$ 1,100	\$ 189	\$ (713)	\$ (733)	\$ (157)
Other comprehensive income (loss) (OCI) before reclassifications	474	(4)		90	560
Amounts reclassified from AOCI	(7)	7	11		11
Net OCI, current period	467	3	11	90	571
Balance, March 31, 2016	\$ 1,567	\$ 192	\$ (702)	\$ (643)	\$ 414

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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 components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for the three months ended March 31, 2016 and 2015.

(for the three months ended March 31, in millions)	2016	2015
Changes in net unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income	\$ 714	\$ 169
Income tax expense	247	56
Net of taxes	467	113
Having credit losses recognized in the consolidated statement of income	5	(5)
Income tax expense (benefit)	2	(2)
Net of taxes	3	(3)
Net changes in benefit plan assets and obligations	16	24
Income tax expense	5	8
Net of taxes	11	16
Net changes in unrealized foreign currency translation	103	(274)
Income tax expense (benefit)	13	(37)
Net of taxes	90	(237)
Total other comprehensive income (loss)	838	(86)
Total income tax expense	267	25
Total other comprehensive income (loss), net of taxes	\$ 571	\$ (111)

The following table presents the pre-tax and related income tax (expense) benefit components of the amounts reclassified from the Company's AOCI to the Company's consolidated statement of income for the three months ended March 31, 2016 and 2015.

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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

(for the three months ended March 31, in millions)	2016	2015
Reclassification adjustments related to unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income (1)	\$ (11)	\$ (18)
Income tax expense (2)	(4)	(6)
Net of taxes	(7)	(12)
Having credit losses recognized in the consolidated statement of income (1)	11	
Income tax benefit (2)	4	
Net of taxes	7	
Reclassification adjustment related to benefit plan assets and obligations (3)	16	23
Income tax benefit (2)	5	8
Net of taxes	11	15
Reclassification adjustment related to foreign currency translation (1)		
Income tax benefit (2)		
Net of taxes		
Total reclassifications	16	5
Total income tax benefit	5	2
Total reclassifications, net of taxes	\$ 11	\$ 3

-
- (1) (Increases) decreases net realized investment gains (losses) on the consolidated statement of income.
- (2) (Increases) decreases income tax expense on the consolidated statement of income.
- (3) Increases (decreases) general and administrative expenses on the consolidated statement of income.

7. COMMON SHARE REPURCHASES

During the three months ended March 31, 2016, the Company repurchased 5.1 million shares under its share repurchase authorization for a total cost of \$550 million. The average cost per share repurchased was \$108.46. At March 31, 2016, the Company had \$2.78 billion of capacity remaining under its share repurchase authorization. In addition, the Company acquired 0.5 million shares for a total cost of \$59 million during

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the three months ended March 31, 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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

8. EARNINGS PER SHARE

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

(in millions, except per share amounts)	Three Months Ended	
	2016	2015
Basic and Diluted		
Net income, as reported	\$ 691	\$ 833
Participating share-based awards allocated income	(5)	(6)
Net income available to common shareholders basic and diluted	\$ 686	\$ 827
Common Shares		
Basic		
Weighted average shares outstanding	294.2	320.8
Diluted		
Weighted average shares outstanding	294.2	320.8
Weighted average effects of dilutive securities stock options and performance shares	3.7	3.7
Total	297.9	324.5
Net Income per Common Share		
Basic	\$ 2.33	\$ 2.58
Diluted	\$ 2.30	\$ 2.55

9. SHARE-BASED INCENTIVE COMPENSATION

The following information relates to fully vested stock option awards at March 31, 2016:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value (\$in millions)
Vested at end of period (1)	8,773,891	\$ 77.11	6.6 Years	\$ 347
Exercisable at end of period	5,158,324	\$ 61.95	4.9 Years	\$ 282

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

The total compensation cost for all share-based incentive compensation awards recognized in earnings was \$50 million and \$47 million for the three months ended March 31, 2016 and 2015, respectively. The related tax benefits recognized in earnings were \$17 million and \$16 million for the three months ended March 31, 2016 and 2015, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at March 31, 2016 was \$215 million, which is expected to be recognized over a weighted-average period of 2.2 years. The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at December 31, 2015 was \$124 million, which was expected to be recognized over a weighted-average period of 1.7 years.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****10. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS**

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

(for the three months ended March 31, in millions)	Pension Plans		Postretirement Benefit Plans	
	2016	2015	2016	2015
Net Periodic Benefit Cost:				
Service cost	\$ 29	\$ 33	\$	\$
Interest cost on benefit obligation	30	36	2	3
Expected return on plan assets	(57)	(58)		
Amortization of unrecognized:				
Prior service benefit			(1)	(1)
Net actuarial loss	17	24		
Net periodic benefit cost	\$ 19	\$ 35	\$ 1	\$ 2

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 for the first quarter 2016 by \$1 million and \$8 million, respectively. The weighted average discount rates that are being used to measure service and interest cost 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.

11. 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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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.

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 (American Re), and three other reinsurers. 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 in advance of the August 3, 2015 trial date 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, and trial of the issues remanded by the Court of Appeals is scheduled for July 6, 2016. On March 24, 2016, the reinsurers filed a motion to change the venue, which the Company has opposed. The Company awaits a ruling on that motion. At March 31, 2016, the claim totaled \$514 million, comprising \$238 million of reinsurance recoverable plus interest amounting to \$276 million as of that date. Interest will continue to accrue at an annual rate of 9% until the claim is paid. 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 \$1.72 billion and \$1.71 billion at March 31, 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 March 31, 2016, of which \$2 million was recognized on the balance sheet at that date.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

The maximum amount of the Company's obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was \$150 million at March 31, 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 March 31, 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.

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

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

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2016

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

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

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	\$ (14)	\$ (14)	\$	\$	\$ (28)
OTTI losses recognized in net realized investment gains (losses)	\$ (9)	\$ (9)	\$	\$	\$ (18)

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

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	\$ 3,996	\$ 1,892	\$	\$	\$ 5,888
Net investment income	411	180	1		592
Fee income	114				114
Net realized investment gains (1)	2	7	1		10
Other revenues	21	4			25
Total revenues	4,544	2,083	2		6,629
Claims and expenses					
Claims and claim adjustment expenses	2,309	1,122			3,431
Amortization of deferred acquisition costs	642	321			963
General and administrative expenses	698	292	5		995
Interest expense	12		80		92
Total claims and expenses	3,661	1,735	85		5,481
Income (loss) before income taxes	883	348	(83)		1,148
Income tax expense (benefit)	251	93	(29)		315
Net income of subsidiaries			887	(887)	
Net income	\$ 632	\$ 255	\$ 833	\$ (887)	\$ 833

(1) Total other-than-temporary impairment (OTTI) for the three months ended March 31, 2015, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (loss) (OCI) were as follows:

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(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	\$ (1)	\$ (3)	\$	\$	\$ (4)
OTTI losses recognized in net realized investment gains	\$ (1)	\$ (2)	\$	\$	\$ (3)
OTTI losses recognized in OCI	\$	\$ (1)	\$	\$	\$ (1)

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****12. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued****CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)**

For the three months ended March 31, 2016

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended March 31, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	\$ 632	\$ 255	\$ 833	\$ (887)	\$ 833
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	134	33	2		169
Having credit losses recognized in the consolidated statement of income	(4)	(1)			(5)
Net changes in benefit plan assets and obligations		1	23		24
Net changes in unrealized foreign currency translation	(179)	(95)			(274)
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(49)	(62)	25		(86)
Income tax expense	14	3	8		25
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(63)	(65)	17		(111)
Other comprehensive loss of subsidiaries			(128)	128	
Other comprehensive loss	(63)	(65)	(111)	128	(111)
Comprehensive income	\$ 569	\$ 190	\$ 722	\$ (759)	\$ 722

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****12. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued****CONSOLIDATING BALANCE SHEET (Unaudited)**

At March 31, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost \$59,490)	\$ 42,898	\$ 19,039	\$ 48	\$	\$ 61,985
Equity securities, available for sale, at fair value (cost \$528)	193	374	143		710
Real estate investments	55	872			927
Short-term securities	2,100	861	1,626		4,587
Other investments	2,563	905	1		3,469
Total investments	47,809	22,051	1,818		71,678
Cash	211	148	2		361
Investment income accrued	420	176	3		599
Premiums receivable	4,599	2,246			6,845
Reinsurance recoverables	5,937	2,866			8,803
Ceded unearned premiums	737	68			805
Deferred acquisition costs	1,702	197			1,899
Contractholder receivables	3,432	987			4,419
Goodwill	2,584	1,004			3,588
Other intangible assets	202	73			275
Investment in subsidiaries			28,081	(28,081)	
Other assets	2,070	322	16		2,408
Total assets	\$ 69,703	\$ 30,138	\$ 29,920	\$ (28,081)	\$ 101,680
Liabilities					
Claims and claim adjustment expense reserves	\$ 32,378	\$ 16,262	\$	\$	\$ 48,640
Unearned premium reserves	8,603	3,728			12,331
Contractholder payables	3,432	987			4,419
Payables for reinsurance premiums	267	171			438
Deferred taxes	108	4	(30)		82
Debt	692		5,652		6,344

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Other liabilities	3,949	1,169	142	5,260
Total liabilities	49,429	22,321	5,764	77,514
Shareholders equity				
Common stock (1,750.0 shares authorized; 292.4 shares issued and outstanding)		390	22,269	(390) 22,269
Additional paid-in capital	11,634	6,499		(18,133)
Retained earnings	7,848	673	30,444	(8,511) 30,454
Accumulated other comprehensive income	792	255	414	(1,047) 414
Treasury stock, at cost (473.2 shares)			(28,971)	(28,971)
Total shareholders equity	20,274	7,817	24,156	(28,081) 24,166
Total liabilities and shareholders equity	\$ 69,703	\$ 30,138	\$ 29,920	(28,081) \$ 101,680

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****12. 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
Assets					
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
Total investments	46,997	21,739	1,734		70,470
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
Total assets	\$ 68,429	\$ 29,964	\$ 29,364	\$ (27,573)	\$ 100,184
Liabilities					
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

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Other liabilities	3,958	1,221	127	5,306
Total liabilities	48,513	22,295	5,778	76,586
Shareholders equity				
Common stock (1,750.0 shares authorized; 295.9 shares issued and outstanding)		390	22,172	(390) 22,172
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)
Total shareholders equity	19,916	7,669	23,586	(27,573) 23,598
Total liabilities and shareholders equity	\$ 68,429	\$ 29,964	\$ 29,364	(27,573) \$ 100,184

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the three months ended March 31, 2016

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the three months ended March 31, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Cash flows from operating activities					
Net income	\$ 632	\$ 255	\$ 833	\$ (887)	\$ 833
Net adjustments to reconcile net income to net cash provided by (used in) operating activities	(405)	(350)	16	105	(634)
Net cash provided by (used in) operating activities	227	(95)	849	(782)	199
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	1,851	979			2,830
Proceeds from sales of investments:					
Fixed maturities	555	351			906
Equity securities	6	5			11
Real estate investments		7			7
Other investments	98	48			146
Purchases of investments:					
Fixed maturities	(2,133)	(1,192)			(3,325)
Equity securities	(1)	(6)	(1)		(8)
Real estate investments		(6)			(6)
Other investments	(139)	(29)			(168)
Net sales (purchases) of short-term securities	(23)	6	(117)		(134)
Securities transactions in course of settlement	175	130			305
Other	(89)	(1)			(90)
Net cash provided by (used in) investing activities	300	292	(118)		474
Cash flows from financing activities					
Treasury stock acquired share repurchase authorization			(600)		(600)
Treasury stock acquired net employee share-based compensation			(71)		(71)
Dividends paid to shareholders			(177)		(177)
Issuance of common stock employee share options			90		90

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Excess tax benefits from share-based payment arrangements				27				27
Dividends paid to parent company	(552)	(230)			782			
Net cash used in financing activities	(552)	(230)	(731)		782			(731)
Effect of exchange rate changes on cash	(1)	(7)						(8)
Net decrease in cash	(26)	(40)						(66)
Cash at beginning of year	221	151		2				374
Cash at end of period	\$ 195	\$ 111	\$ 2	\$	\$	\$	\$	308
Supplemental disclosure of cash flow information								
Income taxes paid (received)	\$ 138	\$ 52	\$ (64)	\$	\$	\$	\$	126
Interest paid	\$ 16	\$	\$ 18	\$	\$	\$	\$	34

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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 First Quarter Consolidated Results of Operations

- Net income of \$691 million, or \$2.33 per share basic and \$2.30 per share diluted
- Net earned premiums of \$5.98 billion
- Catastrophe losses of \$318 million (\$207 million after-tax)
- Net favorable prior year reserve development of \$180 million (\$119 million after-tax)
- Combined ratio of 92.3%
- Net investment income of \$544 million (\$439 million after-tax)
- Operating cash flows of \$850 million

2016 First Quarter Consolidated Financial Condition

- Total investments of \$71.68 billion; fixed maturities and short-term securities comprise 93% of total investments
- Total assets of \$101.68 billion
- Total debt of \$6.34 billion, resulting in a debt-to-total capital ratio of 20.8% (22.1% excluding net unrealized investment gains, net of tax)
- Repurchased 5.6 million common shares for a total cost of \$609 million and paid \$180 million of dividends to shareholders
- Common stock dividend increased to \$0.67 per share, a 10% increase, on April 21, 2016

- Shareholders' equity of \$24.17 billion
- Net unrealized investment gains of \$2.69 billion (\$1.76 billion after-tax)
- Book value per common share of \$82.65
- Holding company liquidity of \$1.71 billion

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

(for the three months ended March 31, in millions except ratio and per share amounts)	2016	2015
Revenues		
Premiums	\$ 5,981	\$ 5,888
Net investment income	544	592
Fee income	117	114
Net realized investment gains (losses)	(9)	10
Other revenues	53	25
Total revenues	6,686	6,629
Claims and expenses		
Claims and claim adjustment expenses	3,712	3,431
Amortization of deferred acquisition costs	971	963
General and administrative expenses	995	995
Interest expense	91	92
Total claims and expenses	5,769	5,481
Income before income taxes	917	1,148
Income tax expense	226	315
Net income	\$ 691	\$ 833
Net income per share		
Basic	\$ 2.33	\$ 2.58
Diluted	\$ 2.30	\$ 2.55
Combined ratio		
Loss and loss adjustment expense ratio	61.1%	57.4%
Underwriting expense ratio	31.2	31.5
Combined ratio	92.3%	88.9%
Incremental impact of direct to consumer initiative on combined ratio	0.3%	0.4%

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

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Diluted net income per share of \$2.30 in the first quarter of 2016 decreased by 10% from diluted net income per share of \$2.55 in the same period of 2015. Net income of \$691 million in the first quarter of 2016 decreased by 17% from net income of \$833 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 decrease in net income primarily reflected the pre-tax impacts of (i) higher catastrophe losses, (ii) lower net favorable prior year reserve development and (iii) lower net investment income. Net favorable prior year reserve development in the first quarters of 2016 and 2015 was \$180 million and \$243 million, respectively. Catastrophe losses in the first quarters of 2016 and 2015 were \$318 million and \$162 million, respectively. Partially offsetting the net pre-tax decrease in income was a related decrease in income tax expense.

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 changes in foreign currency exchange rates. For the three months ended March 31, 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.

Table of Contents**Revenues***Earned Premiums*

Earned premiums in the first quarter of 2016 were \$5.98 billion, \$93 million or 2% higher than in the same period of 2015. In the Business and International Insurance segment, earned premiums in the first quarter of 2016 decreased by 1% from the same period of 2015. In the Bond & Specialty Insurance segment, earned premiums in the first quarter of 2016 increased by 1% over the same period of 2015. In the Personal Insurance segment, earned premiums in the first quarter of 2016 increased by 6% over the same period of 2015. Factors contributing to the changes in earned premiums are discussed in more detail in the segment discussions that follow.

Net Investment Income

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

(for the three months ended March 31, dollars in millions)	2016	2015
Average investments (1)	\$ 69,926	\$ 70,722
Pre-tax net investment income	544	592
After-tax net investment income	439	478
Average pre-tax yield (2)	3.1%	3.3%
Average after-tax yield (2)	2.5%	2.7%

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

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

Net investment income in the first quarter of 2016 was \$544 million, \$48 million or 8% lower than in the same period of 2015. Net investment income from fixed maturity investments was \$503 million in the first quarter of 2016, a decrease of \$28 million from the same period in 2015. The decrease primarily resulted from lower long-term reinvestment rates available in the market. Net investment income generated by non-fixed maturity investments was \$44 million in the first quarter of 2016, a decrease of \$25 million from the same period of 2015 primarily due to lower hedge fund returns.

Fee Income

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The National Accounts market in the Business and International Insurance segment is the primary source of the Company's fee-based business. The \$3 million increase in fee income in the first quarter of 2016 compared with the same period of 2015 is discussed in the Business and International Insurance segment discussion that follows.

Net Realized Investment Gains (Losses)

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

(for the three months ended March 31, in millions)	2016	2015
Net Realized Investment Gains (Losses)		
Other-than-temporary impairment losses	\$ (18)	\$ (3)
Other net realized investment gains	9	13
Net realized investment gains (losses)	\$ (9)	\$ 10

Other Revenues

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

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

Claims and claim adjustment expenses in the first quarter of 2016 were \$3.71 billion, \$281 million or 8% higher than in the same period of 2015, primarily reflecting (i) higher catastrophe losses, (ii) the impact of loss cost trends, (iii) lower net favorable prior year reserve development and (iv) higher volumes of insured exposures, partially offset by (v) lower non-catastrophe weather-related losses. Catastrophe losses in the first quarter of 2016 primarily resulted from wind and hail storms in Texas and several other regions of the United States, as well as winter storms in the eastern United States. Catastrophe losses in the first quarter of 2015 resulted from a winter storm in the eastern United States. Factors contributing to net favorable prior year reserve development in each segment during the first quarters of 2016 and 2015 are discussed in more detail in the segment discussions that follow.

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 ended March 31, 2016 and 2015, and the estimate of ultimate losses for those catastrophes at March 31, 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 For The Three Months Ended March 31,		Estimated Ultimate Losses	
	2016	2015	March 31, 2016	December 31, 2015
2014				
PCS Serial Number:				
32 Winter storm	\$ (1)	\$ (1)	\$ 138	\$ 139
43 Severe wind and hail storms	\$	\$	\$ 176	\$ 176
2015				
PCS Serial Number:				
68 Winter storm	\$	\$ 162	\$ 140	\$ 140
2016				
PCS Serial Number:				
21 Severe wind and hail storms	\$ 163	\$ n/a	\$ 163	\$ n/a

n/a: not applicable.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in the first quarter of 2016 of \$971 million was \$8 million or 1% 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 first quarter of 2016 were \$995 million, level with 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 first quarters of 2016 and 2015 was \$91 million and \$92 million, respectively.

Table of Contents*Income Tax Expense*

Income tax expense in the first quarter of 2016 was \$226 million, \$89 million or 28% lower than in the same period of 2015, which primarily reflected the \$231 million decrease in income before income taxes in the first quarter of 2016.

The Company's effective tax rate was 25% and 27% in the first quarters of 2016 and 2015, respectively. The effective tax rates in both periods were lower than the statutory rate of 35% primarily due to the impact of tax-exempt investment income on the calculation of the Company's income tax provision.

Combined Ratio

The combined ratio of 92.3% in the first quarter of 2016 was 3.4 points higher than the combined ratio of 88.9% in the same period of 2015.

The loss and loss adjustment expense ratio of 61.1% in the first quarter of 2016 was 3.7 points higher than the loss and loss adjustment expense ratio of 57.4% in the same period of 2015. Net favorable prior year reserve development in the first quarters of 2016 and 2015 provided 3.0 points and 4.1 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses accounted for 5.3 points and 2.7 points of the 2016 and 2015 first quarter loss and loss adjustment expense ratios, respectively. The 2016 first quarter loss and loss adjustment expense ratio excluding prior year reserve development and catastrophe losses (underlying loss and loss adjustment expense ratio) was level with the 2015 ratio on the same basis.

The underwriting expense ratio of 31.2% in the first quarter of 2016 was 0.3 points lower than the underwriting expense ratio of 31.5% in the same period of 2015.

Written Premiums

Consolidated gross and net written premiums were as follows:

(for the three months ended March 31, in millions)	Gross Written Premiums	
	2016	2015
Business and International Insurance	\$ 4,366	\$ 4,276
Bond & Specialty Insurance	536	522
Personal Insurance	1,810	1,676

Total	\$	6,712	\$	6,474
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(for the three months ended March 31, in millions)	Net Written Premiums			
	2016	2015		
Business and International Insurance	\$	3,914	\$	3,797
Bond & Specialty Insurance		492		478
Personal Insurance		1,760		1,622
Total	\$	6,166	\$	5,897

Gross written premiums in the first quarter of 2016 increased by 4% over the same period of 2015. Net written premiums in the first quarter of 2016 increased by 5% over the same period 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.

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

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

(for the three months ended March 31, in millions except ratio amounts)	2016	2015
Revenues		
Earned premiums	\$ 3,599	\$ 3,620
Net investment income	415	454
Fee income	114	111
Other revenues	33	8
Total revenues	\$ 4,161	\$ 4,193
Total claims and expenses	\$ 3,541	\$ 3,503
Operating income	\$ 476	\$ 515
Loss and loss adjustment expense ratio	62.4%	61.2%
Underwriting expense ratio	32.4	32.1
Combined ratio	94.8%	93.3%

Overview

Operating income in the first quarter of 2016 was \$476 million, \$39 million or 8% lower than operating income of \$515 million in the same period of 2015. The decrease primarily reflected the pre-tax impacts of (i) higher catastrophe losses and (ii) lower net investment income. Catastrophe losses in the first quarters of 2016 and 2015 were \$148 million and \$99 million, respectively. Net favorable prior year reserve development in the first quarters of 2016 and 2015 was \$93 million and \$77 million, respectively. Partially offsetting the net pre-tax decrease in operating income was a related decrease in income tax expense.

Earned Premiums

Earned premiums in the first quarter of 2016 were \$3.60 billion, \$21 million or 1% lower than in the same period of 2015.

Net Investment Income

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Net investment income in the first quarter of 2016 was \$415 million, \$39 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 decrease in the Company's consolidated net investment income in the first quarter of 2016 compared with the same period of 2015. In addition, refer to note 2 of notes to the 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 first quarter of 2016 was \$114 million, \$3 million or 3% higher than in the same period of 2015, primarily reflecting the impact of higher claim volume in the large deductible business driven by growth.

Other Revenues

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

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Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in the first quarter of 2016 were \$2.30 billion, \$34 million or 2% higher than in the same period of 2015, primarily reflecting the impacts of (i) loss cost trends and (ii) higher catastrophe losses, partially offset by (iii) lower non-catastrophe weather-related losses and (iv) higher net favorable prior year reserve development. Net favorable prior year reserve development in the first 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 excess coverages for accident years 2006 and prior, (ii) the general liability product line, primarily related to excess coverages for accident years 2011 and 2013 and (iii) the commercial automobile product line for accident years 2010 and prior, as well as in the Company's international operations in Europe and Canada. Net favorable prior year reserve development in the first quarter of 2015 was primarily driven by better than expected loss experience in the Company's domestic operations in (i) the general liability product line, primarily related to primary coverages for accident years 2005 and prior, and (ii) the workers' compensation product line for accident years 2007 and prior.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in the first quarter of 2016 was \$579 million, \$5 million or 1% lower than in the same period of 2015, generally consistent with the decrease in earned premiums.

General and Administrative Expenses

General and administrative expenses in the first quarter of 2016 were \$663 million, \$9 million or 1% higher than in the same period of 2015.

Income Tax Expense

Income tax expense in the first quarter of 2016 was \$144 million, \$31 million or 18% lower than in the same period of 2015, primarily reflecting the \$70 million decrease in income before income taxes in the first quarter of 2016.

Combined Ratio

The combined ratio of 94.8% in the first quarter of 2016 was 1.5 points higher than the combined ratio of 93.3% in the same period of 2015.

The loss and loss adjustment expense ratio of 62.4% in the first quarter of 2016 was 1.2 points higher than the loss and loss adjustment expense ratio of 61.2% in the same period of 2015. Net favorable prior year reserve development in the first quarters of 2016 and 2015 provided 2.6 points and 2.1 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in the first quarters of 2016 and 2015 accounted for 4.1 points and 2.7 points, respectively, of the loss and loss adjustment expense ratio. The 2016 first quarter underlying loss and loss adjustment expense ratio was 0.3 points higher than the 2015 ratio on the same basis.

The underwriting expense ratio of 32.4% in the first quarter of 2016 was 0.3 points higher than the underwriting expense ratio of 32.1% in the same period of 2015.

Written Premiums

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

(for the three months ended March 31, in millions)	Gross Written Premiums	
	2016	2015
Domestic:		
Select Accounts	\$ 744	\$ 740
Middle Market	1,901	1,819
National Accounts	534	510
First Party	440	423
Specialized Distribution	288	270
Total Domestic	3,907	3,762
International	459	514
Total Business and International Insurance	\$ 4,366	\$ 4,276

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(for the three months ended March 31, in millions)	Net Written Premiums	
	2016	2015
Domestic:		
Select Accounts	\$ 724	\$ 722
Middle Market	1,829	1,726
National Accounts	320	299
First Party	358	340
Specialized Distribution	286	268
Total Domestic	3,517	3,355
International	397	442
Total Business and International Insurance	\$ 3,914	\$ 3,797

Gross and net written premiums in the first quarter of 2016 increased by 2% and 3%, respectively, over the same period of 2015. Business retention rates remained strong and were higher than in the same period of 2015. Renewal premium changes remained positive in the first quarter of 2016 but were lower than in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015.

Select Accounts. Net written premiums of \$724 million in the first quarter of 2016 were comparable with the same period of 2015. Business retention rates in the first quarter of 2016 remained strong and were higher than in the same period of 2015. Renewal premium changes in the first quarter of 2016 remained positive but were lower than in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015.

Middle Market. Net written premiums of \$1.83 billion in the first quarter of 2016 increased by 6% over the same period of 2015. Business retention rates in the first quarter of 2016 remained strong and were higher than in the same period of 2015. Renewal premium changes in the first quarter of 2016 remained positive but were lower than in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015. The increase in net written premiums in the first quarter of 2016 also included a modest benefit from the impact of changes in the timing and structure of certain reinsurance transactions.

National Accounts. Net written premiums of \$320 million in the first quarter of 2016 increased by 7% over the same period of 2015. Business retention rates in the first quarter of 2016 remained strong and were higher than in the same period of 2015. Renewal premium changes in the first quarter of 2016 remained positive and were higher than in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015.

First Party. Net written premiums of \$358 million in the first quarter of 2016 increased by 5% over the same period of 2015. Business retention rates in the first quarter of 2016 remained strong and were higher than in the same period of 2015. Renewal premium changes in the first quarter of 2016 were slightly negative, compared with slightly positive in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015.

Specialized Distribution. Net written premiums of \$286 million in the first quarter of 2016 increased by 7% over the same period of 2015. Business retention rates in the first quarter of 2016 remained strong and were higher than in the same period of 2015. Renewal premium changes in the first quarter of 2016 remained positive but were lower than in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015.

International. Net written premiums of \$397 million in the first quarter of 2016 decreased by 10% from the same period of 2015, primarily due to changes in foreign currency exchange rates. Excluding the surety line of business, for which the following are not relevant measures, business retention rates in the first quarter of 2016 remained strong but were lower than in the same period of 2015. Renewal premium changes in the first quarter of 2016 were slightly negative as compared to flat in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015.

Table of Contents**Bond & Specialty Insurance**

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

(for the three months ended March 31, in millions except ratio amounts)	2016	2015
Revenues		
Earned premiums	\$ 508	\$ 504
Net investment income	52	56
Other revenues	3	5
Total revenues	\$ 563	\$ 565
Total claims and expenses	\$ 354	\$ 386
Operating income	\$ 144	\$ 124
Loss and loss adjustment expense ratio	31.9%	37.6%
Underwriting expense ratio	37.4	38.5
Combined ratio	69.3%	76.1%

Overview

Operating income in the first quarter of 2016 was \$144 million, \$20 million or 16% higher than operating income of \$124 million in the same period of 2015, primarily reflecting the pre-tax impacts of (i) higher net favorable prior year reserve development and (ii) higher underwriting margins excluding prior year reserve development and catastrophe losses (underlying underwriting margins). Net favorable prior year reserve development in the first quarters of 2016 and 2015 was \$60 million and \$35 million, respectively. Catastrophe losses in the first quarters of both 2016 and 2015 were \$1 million. Partially offsetting the net pre-tax increase in operating income was a related increase in income tax expense.

Earned Premiums

Earned premiums in the first quarter of 2016 were \$508 million, \$4 million or 1% higher than in the same period of 2015, primarily reflecting the impact of an increase in net written premiums over the preceding twelve months.

Net Investment Income

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Net investment income in the first quarter of 2016 was \$52 million, \$4 million or 7% 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 decrease in the Company's consolidated net investment income in the first quarter of 2016 as compared with the same period of 2015.

In addition, refer to note 2 of notes to the 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 first quarter of 2016 were \$164 million, \$28 million or 15% lower than in the same period of 2015, primarily reflecting higher net favorable prior year reserve development. Net favorable prior year reserve development in first quarter 2016 was primarily driven by better than expected loss experience in the surety product line for accident years 2012 through 2014. Net favorable prior year reserve development in the first quarter of 2015 was primarily driven by better than expected loss experience in the contract surety product line for accident years 2010 through 2012.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in the first quarter of 2016 was \$96 million, \$2 million or 2% higher than in the same period of 2015, generally consistent with the increase in earned premiums.

General and Administrative Expenses

General and administrative expenses in the first quarter of 2016 were \$94 million, \$6 million or 6% lower than in the same period of 2015, primarily reflecting the impact of certain customer-related intangible assets which became fully amortized in the second quarter of 2015.

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Income Tax Expense

Income tax expense in the first quarter of 2016 was \$65 million, \$10 million or 18% higher than in the same period of 2015, primarily reflecting the \$30 million increase in income before income taxes.

Combined Ratio

The combined ratio of 69.3% in the first quarter of 2016 was 6.8 points lower than the combined ratio of 76.1% in the same period of 2015.

The loss and loss adjustment expense ratio of 31.9% in the first quarter of 2016 was 5.7 points lower than the loss and loss adjustment expense ratio of 37.6% in the same period of 2015. Net favorable prior year reserve development in the first quarters of 2016 and 2015 provided 11.9 points and 6.9 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in the first quarters of both 2016 and 2015 accounted for 0.1 points of the loss and loss adjustment expense ratio. The 2016 first quarter underlying loss and loss adjustment expense ratio was 0.7 points lower than the 2015 ratio on the same basis, primarily reflecting lower loss estimates in certain management liability businesses.

The underwriting expense ratio of 37.4% in the first quarter of 2016 was 1.1 points lower than the underwriting expense ratio of 38.5% in the same period of 2015, primarily reflecting the impact of certain customer-related intangible assets which became fully amortized in the second quarter of 2015.

Written Premiums

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

(for the three months ended March 31, in millions)	Gross Written Premiums	
	2016	2015
Total Bond & Specialty Insurance	\$ 536	\$ 522

(for the three months ended March 31, in millions)	Net Written Premiums	
	2016	2015
Total Bond & Specialty Insurance	\$ 492	\$ 478

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Gross and net written premiums in the first quarter of 2016 were each 3% higher than in the same period of 2015. Excluding the surety line of business, for which the following are not relevant measures, business retention rates in the first quarter of 2016 remained strong and were higher than in the same period of 2015. Renewal premium changes in the first quarter of 2016 remained positive but were lower than in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015.

Table of Contents**Personal Insurance**

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

(for the three months ended March 31, in millions except ratio amounts)	2016	2015
Revenues		
Earned premiums	\$ 1,874	\$ 1,764
Net investment income	77	82
Fee income	3	3
Other revenues	14	12
Total revenues	\$ 1,968	\$ 1,861
Total claims and expenses	\$ 1,775	\$ 1,493
Operating income	\$ 139	\$ 252
Loss and loss adjustment expense ratio	66.7%	55.2%
Underwriting expense ratio	27.0	28.3
Combined ratio	93.7%	83.5%
Incremental impact of direct to consumer initiative on combined ratio	0.9%	1.7%

Overview

Operating income in the first quarter of 2016 was \$139 million, \$113 million or 45% lower than operating income of \$252 million in the same period of 2015. The decrease in operating income primarily reflected the pre-tax impacts of (i) higher catastrophe losses and (ii) lower net favorable prior year reserve development, partially offset by (iii) higher underlying underwriting margins. Net favorable prior year reserve development in the first quarters of 2016 and 2015 was \$27 million and \$131 million, respectively. Catastrophe losses in the first quarters of 2016 and 2015 were \$169 million and \$62 million, respectively. Partially offsetting the net pre-tax decrease in operating income was a related decrease in income tax expense.

Earned Premiums

Earned premiums in the first quarter of 2016 were \$1.87 billion, \$110 million or 6% higher than in the same period of 2015, primarily reflecting the impact of an increase in net written premiums over the preceding twelve months.

Net Investment Income

Net investment income in the first quarter of 2016 was \$77 million, \$5 million or 6% 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 decrease in the Company's consolidated net investment income in the first quarter of 2016 compared with the same period of 2015. In addition, refer to note 2 of notes to the 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 first quarters 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 first quarter of 2016 were \$1.25 billion, \$275 million or 28% higher than in the same period of 2015, primarily reflecting (i) higher catastrophe losses, (ii) lower net favorable prior year reserve development, (iii) higher volumes of insured exposures and (iv) the impact of loss cost trends, partially offset by (v) lower non-catastrophe weather-related losses. Net favorable prior year reserve development in first quarter 2016 was primarily driven by better than expected loss experience in (i) the Homeowners and Other product line for liability coverages for accident year 2014 and (ii) in the Automobile product line for accident year 2014. Net favorable prior year reserve development in the first 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, for non-catastrophe weather-related

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losses for accident years 2013 and 2014 and for catastrophe losses for accident year 2011, and (ii) the Automobile product line for liability coverages for accident years 2010 through 2013.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in the first quarter of 2016 was \$296 million, \$11 million or 4% higher than in the same period of 2015, generally consistent with the increase in earned premiums.

General and Administrative Expenses

General and administrative expenses in the first quarter of 2016 were \$230 million, \$4 million or 2% lower than in the same period of 2015.

Income Tax Expense

Income tax expense in the first quarter of 2016 was \$54 million, \$62 million or 53% lower than in the same period of 2015, primarily reflecting the \$175 million decrease in income before income taxes.

Combined Ratio

The combined ratio of 93.7% in the first quarter of 2016 was 10.2 points higher than the combined ratio of 83.5% in the same period of 2015.

The loss and loss adjustment expense ratio of 66.7% in the first quarter of 2016 was 11.5 points higher than the loss and loss adjustment expense ratio of 55.2% in the same period of 2015. Net favorable prior year reserve development in the first quarters of 2016 and 2015 provided 1.4 points and 7.5 points of benefit to the loss and loss adjustment expense ratio, respectively. Catastrophe losses accounted for 9.0 points and 3.5 points of the loss and loss adjustment expense ratios in the first quarters of 2016 and 2015, respectively. The 2016 first quarter underlying loss and loss adjustment expense ratio was 0.1 points lower than the 2015 ratio on the same basis.

The underwriting expense ratio of 27.0% in the first quarter of 2016 was 1.3 points lower than the underwriting expense ratio of 28.3% in the same period of 2015, primarily reflecting the impact of an increase in earned premiums, as well as the decrease in general and administrative expenses.

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:

(for the three months ended March 31, in millions)	Gross Written Premiums	
	2016	2015
Agency Automobile	\$ 939	\$ 828
Agency Homeowners and Other	803	795
Total Agency Personal Insurance	\$ 1,742	\$ 1,623

(for the three months ended March 31, in millions)	Net Written Premiums	
	2016	2015
Agency Automobile	\$ 932	\$ 822
Agency Homeowners and Other	760	748
Total Agency Personal Insurance	\$ 1,692	\$ 1,570

Gross agency written premiums in the first quarter of 2016 were 7% higher than in the same period of 2015. Net agency written premiums were 8% higher than in the same period of 2015.

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In the Agency Automobile line of business, net written premiums in the first quarter of 2016 were 13% higher than in the same period of 2015. Business retention rates in the first quarter of 2016 remained strong and were higher than in the same period of 2015. Renewal premium changes in the first quarter of 2016 remained positive but were lower than in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period 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 first quarter of 2016 were 2% higher than in the same period of 2015. Business retention rates in the first quarter of 2016 remained strong and were higher than in the same period of 2015. Renewal premium changes in the first quarter of 2016 remained positive but were lower than in the same period of 2015. New business premiums in the first quarter of 2016 increased over the same period of 2015.

For its Agency business, the Personal Insurance segment had approximately 6.3 million and 6.0 million active policies at March 31, 2016 and 2015, respectively.

Direct to Consumer Written Premiums

In the direct to consumer business, net written premiums in the first quarter of 2016 were \$68 million, \$16 million or 31% higher than in the same period of 2015. In the first quarter of 2016, automobile net written premiums increased by \$13 million, or 34% and homeowners and other net written premiums increased by \$3 million, or 21% over the same period of 2015. The direct to consumer business had 254,000 and 203,000 active policies at March 31, 2016 and 2015, respectively.

Interest Expense and Other

(for the three months ended March 31, in millions)	2016	2015
Operating income (loss)	\$ (61)	\$ (64)

The operating income (loss) for Interest Expense and Other in the first quarter of 2016 and 2015 was \$(61) million and \$(64) million, respectively. After-tax interest expense was \$59 million and \$60 million in the first quarters of 2016 and 2015, respectively.

ASBESTOS CLAIMS AND LITIGATION

The Company believes that the property and casualty insurance industry has suffered from court decisions and other trends that have expanded insurance coverage for asbestos claims far beyond the original intent of insurers and policyholders. The Company has received and continues to receive a significant number of asbestos claims from the Company's policyholders (which includes others seeking coverage under a policy).

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

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

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.

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Net asbestos paid loss and loss expenses in the first quarter of 2016 were \$37 million, compared with \$520 million in the same period of 2015. Net payments in the first quarter of 2015 included the payment of the \$502 million settlement amounts related to the Settlement of Asbestos Direct Action Litigation as described in more detail in note 16 of notes to the consolidated financial statements in the Company's 2015 Annual Report. Net asbestos reserves were \$1.77 billion at March 31, 2016, compared with \$1.84 billion at March 31, 2015.

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

(at and for the three months ended March 31, 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	52	560
Ceded	(15)	(40)
Net	37	520
Foreign exchange and other:		
Gross		(1)
Ceded		
Net		(1)
Ending reserves:		
Gross	1,937	1,959
Ceded	(164)	(123)