

TRAVELERS COMPANIES, INC.

Form 10-Q

April 18, 2019

Table of Contents

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, 2019

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 41-0518860
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes No

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

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

Yes No

The number of shares of the Registrant's Common Stock, without par value, outstanding at April 15, 2019 was 261,908,210.

Table of Contents

The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended March 31, 2019

TABLE OF CONTENTS

| | Page |
|--|------|
| <u>Part I — Financial Information</u> | |
| Item 1. <u>Financial Statements:</u> | |
| Consolidated Statement of Income (Unaudited) — Three Months Ended March 31, 2019 and 2018 | 3 |
| Consolidated Statement of Comprehensive Income (Unaudited) — Three Months Ended March 31, 2019 and 2018 | 4 |
| Consolidated Balance Sheet — March 31, 2019 (Unaudited) and December 31, 2018 | 5 |
| Consolidated Statement of Changes in Shareholders' Equity (Unaudited) — Three Months Ended March 31, 2019 and 2018 | 6 |
| Consolidated Statement of Cash Flows (Unaudited) — Three Months Ended March 31, 2019 and 2018 | 7 |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u> | 8 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 34 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 63 |
| Item 4. <u>Controls and Procedures</u> | 63 |
| <u>Part II — Other Information</u> | |
| Item 1. <u>Legal Proceedings</u> | 63 |
| Item 1A. <u>Risk Factors</u> | 63 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 64 |
| Item 5. <u>Other Information</u> | 64 |
| Item 6. <u>Exhibits</u> | 65 |
| <u>SIGNATURES</u> | 66 |

Table of Contents

PART 1 — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF INCOME (Unaudited)
 (in millions, except per share amounts)

| | Three Months Ended March 31, 2019 2018 | |
|---|---|---------|
| Revenues | | |
| Premiums | \$6,855 | \$6,537 |
| Net investment income | 582 | 603 |
| Fee income | 109 | 103 |
| Net realized investment gains (losses) ⁽¹⁾ | 53 | (11) |
| Other revenues | 72 | 54 |
| Total revenues | 7,671 | 7,286 |
| Claims and expenses | | |
| Claims and claim adjustment expenses | 4,442 | 4,296 |
| Amortization of deferred acquisition costs | 1,117 | 1,061 |
| General and administrative expenses | 1,057 | 1,062 |
| Interest expense | 88 | 89 |
| Total claims and expenses | 6,704 | 6,508 |
| Income before income taxes | 967 | 778 |
| Income tax expense | 171 | 109 |
| Net income | \$796 | \$669 |
| Net income per share | | |
| Basic | \$3.01 | \$2.45 |
| Diluted | \$2.99 | \$2.42 |
| Weighted average number of common shares outstanding | | |
| Basic | 262.9 | 271.0 |
| Diluted | 264.8 | 273.9 |
| Cash dividends declared per common share | \$0.77 | \$0.72 |

(1) Total other-than-temporary impairment (OTTI) gains (losses) were \$(1) million and \$0 for the three months ended March 31, 2019 and 2018, respectively. Of total OTTI, credit losses of \$(1) million and \$0 for the three months ended March 31, 2019 and 2018, respectively, were recognized in net realized investment gains (losses). In addition, unrealized gains (losses) from other changes in total OTTI of \$0 for each of the three months ended March 31, 2019 and 2018, respectively, were recognized in other comprehensive income (loss) as part of changes

in net unrealized gains (losses) 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.

3

Table of Contents

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

| | Three Months Ended March 31, | |
|--|------------------------------------|---------|
| | 2019 | 2018 |
| Net income | \$796 | \$669 |
| Other comprehensive income (loss) | | |
| Changes in net unrealized gains (losses) on investment securities: | | |
| Having no credit losses recognized in the consolidated statement of income | 1,416 | (1,203) |
| Having credit losses recognized in the consolidated statement of income | 5 | (2) |
| Net changes in benefit plan assets and obligations | 12 | 22 |
| Net changes in unrealized foreign currency translation | 50 | 6 |
| Other comprehensive income (loss) before income taxes | 1,483 | (1,177) |
| Income tax expense (benefit) | 306 | (244) |
| Other comprehensive income (loss), net of taxes | 1,177 | (933) |
| Comprehensive income (loss) | \$1,973 | \$(264) |

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

4

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(in millions)

| | March 31, 2019 (Unaudited) | December 31, 2018 |
|---|----------------------------------|----------------------|
| Assets | | |
| Fixed maturities, available for sale, at fair value (amortized cost \$64,216 and \$63,601) | \$ 65,500 | \$ 63,464 |
| Equity securities, at fair value (cost \$375 and \$382) | 400 | 368 |
| Real estate investments | 969 | 904 |
| Short-term securities | 4,094 | 3,985 |
| Other investments | 3,554 | 3,557 |
| Total investments | 74,517 | 72,278 |
| Cash | 357 | 373 |
| Investment income accrued | 591 | 624 |
| Premiums receivable | 7,947 | 7,506 |
| Reinsurance recoverables | 8,281 | 8,370 |
| Ceded unearned premiums | 935 | 578 |
| Deferred acquisition costs | 2,190 | 2,120 |
| Deferred taxes | 115 | 445 |
| Contractholder receivables | 4,811 | 4,785 |
| Goodwill | 3,949 | 3,937 |
| Other intangible assets | 341 | 345 |
| Other assets | 3,212 | 2,872 |
| Total assets | \$ 107,246 | \$ 104,233 |
| Liabilities | | |
| Claims and claim adjustment expense reserves | \$ 50,718 | \$ 50,668 |
| Unearned premium reserves | 14,122 | 13,555 |
| Contractholder payables | 4,811 | 4,785 |
| Payables for reinsurance premiums | 635 | 289 |
| Debt | 7,057 | 6,564 |
| Other liabilities | 5,563 | 5,478 |
| Total liabilities | 82,906 | 81,339 |
| Shareholders' equity | | |
| Common stock (1,750.0 shares authorized; 262.0 and 263.7 shares issued, 261.9 and 263.6 shares outstanding) | 23,243 | 23,144 |
| Retained earnings | 35,795 | 35,204 |
| Accumulated other comprehensive loss | (682) | (1,859) |
| Treasury stock, at cost (514.2 and 510.9 shares) | (34,016) | (33,595) |
| Total shareholders' equity | 24,340 | 22,894 |
| Total liabilities and shareholders' equity | \$ 107,246 | \$ 104,233 |

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)

| | Three Months Ended March 31, | |
|--|------------------------------------|-----------------|
| | 2019 | 2018 |
| Common stock | | |
| Balance, beginning of year | \$23,144 | \$22,886 |
| Employee share-based compensation | 54 | 65 |
| Compensation amortization under share-based plans and other changes | 45 | 44 |
| Balance, end of period | 23,243 | 22,995 |
| Retained earnings | | |
| Balance, beginning of year | 35,204 | 33,462 |
| Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018 | — | 22 |
| Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018 | — | 24 |
| Net income | 796 | 669 |
| Dividends | (204) | (197) |
| Other | (1) | 1 |
| Balance, end of period | 35,795 | 33,981 |
| Accumulated other comprehensive loss, net of tax | | |
| Balance, beginning of year | (1,859) | (343) |
| Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018 | — | (22) |
| Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018 | — | (24) |
| Other comprehensive income (loss) | 1,177 | (933) |
| Balance, end of period | (682) | (1,322) |
| Treasury stock, at cost | | |
| Balance, beginning of year | (33,595) | (32,274) |
| Treasury stock acquired — share repurchase authorization | (375) | (350) |
| Net shares acquired related to employee share-based compensation plans | (46) | (51) |
| Balance, end of period | (34,016) | (32,675) |
| Total shareholders' equity | \$24,340 | \$22,979 |
| Common shares outstanding | | |
| Balance, beginning of year | 263.6 | 271.4 |
| Treasury stock acquired — share repurchase authorization | (2.9) | (2.5) |
| Net shares issued under employee share-based compensation plans | 1.2 | 1.3 |
| Balance, end of period | 261.9 | 270.2 |

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

6

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
(in millions)

| | Three Months Ended March 31, 2019 2018 | |
|---|--|---------|
| Cash flows from operating activities | | |
| Net income | \$796 | \$669 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized investment (gains) losses | (53) | 11 |
| Depreciation and amortization | 211 | 212 |
| Deferred federal income tax expense (benefit) | 32 | (56) |
| Amortization of deferred acquisition costs | 1,117 | 1,061 |
| Equity in income from other investments | (34) | (95) |
| Premiums receivable | (434) | (397) |
| Reinsurance recoverables | 98 | 5 |
| Deferred acquisition costs | (1,185) | (1,124) |
| Claims and claim adjustment expense reserves | (2) | 180 |
| Unearned premium reserves | 551 | 518 |
| Other | (458) | (430) |
| Net cash provided by operating activities | 639 | 554 |
| Cash flows from investing activities | | |
| Proceeds from maturities of fixed maturities | 1,556 | 1,950 |
| Proceeds from sales of investments: | | |
| Fixed maturities | 769 | 1,085 |
| Equity securities | 39 | 26 |
| Real estate investments | — | — |
| Other investments | 105 | 114 |
| Purchases of investments: | | |
| Fixed maturities | (2,914) | (3,920) |
| Equity securities | (22) | (20) |
| Real estate investments | (77) | (33) |
| Other investments | (146) | (142) |
| Net sales (purchases) of short-term securities | (109) | 410 |
| Securities transactions in course of settlement | 295 | 202 |
| Other | (82) | (53) |
| Net cash used in investing activities | (586) | (381) |
| Cash flows from financing activities | | |
| Treasury stock acquired — share repurchase authorization | (375) | (350) |
| Treasury stock acquired — net employee share-based compensation | (46) | (51) |
| Dividends paid to shareholders | (205) | (197) |
| Payment of debt | — | (100) |
| Issuance of debt | 492 | 491 |
| Issuance of common stock — employee share options | 63 | 85 |
| Net cash used in financing activities | (71) | (122) |

Edgar Filing: TRAVELERS COMPANIES, INC. - Form 10-Q

| | | |
|---|-------|-------|
| Effect of exchange rate changes on cash | 2 | 2 |
| Net increase (decrease) in cash | (16) | 53 |
| Cash at beginning of year | 373 | 344 |
| Cash at end of period | \$357 | \$397 |

Supplemental disclosure of cash flow information

| | | |
|-------------------|------|------|
| Income taxes paid | \$5 | \$56 |
| Interest paid | \$50 | \$39 |

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

7

Table of Contents

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, 2018 (the Company's 2018 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.

Adoption of Accounting Standards

Leases

Effective for the quarter ended March 31, 2019, the Company adopted the updated guidance for leases and elected to utilize a cumulative-effect adjustment to the opening balance of retained earnings for the year of adoption. Accordingly, the Company's reporting for the comparative periods prior to adoption continue to be presented in the financial statements in accordance with previous lease accounting guidance. The Company also elected to apply all practical expedients applicable to the Company in the updated guidance for transition for leases in effect at adoption, including using hindsight to determine the lease term of existing leases, the option to not reassess whether an existing contract is a lease or contains a lease and whether the lease is an operating or finance lease. The adoption of the updated guidance resulted in the Company recognizing a right-of-use asset of \$320 million as part of other assets and a lease liability of \$384 million as part of other liabilities in the consolidated balance sheet, as well as de-recognizing the liability for deferred rent that was required under the previous guidance, for its corporate real estate agreements at March 31, 2019. The cumulative effect adjustment to the opening balance of retained earnings was zero. The adoption of the updated guidance did not have a material effect on the Company's results of operations or liquidity.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

Effective for the quarter ended March 31, 2019, the Company adopted the updated guidance regarding Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, and applied the guidance prospectively. The updated guidance requires an entity to determine the stage of a project that the implementation activity relates to and the nature of the associated costs in order to determine whether those costs should be expensed as incurred or capitalized. The updated guidance also requires the entity to amortize the capitalized implementation costs as an expense over the term of the hosting arrangement. The adoption of the updated

guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

For additional information regarding accounting standards that the Company adopted during the periods presented, see note 1 of notes to the consolidated financial statements in the Company's 2018 Annual Report.

Accounting Standards Not Yet Adopted

For information regarding accounting standards that the Company has not yet adopted, see the "Other Accounting Standards Not Yet Adopted" section of note 1 of notes to the consolidated financial statements in the Company's 2018 Annual Report.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

Nature of Operations

The Company's results are reported in the following three business segments — Business 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 the 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 2018 Annual Report.

2. SEGMENT INFORMATION

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

| (For the three months ended March 31, in millions) | Business Insurance | Bond & Specialty Insurance | Personal Insurance | Total Reportable Segments |
|--|--------------------|----------------------------|--------------------|---------------------------|
| 2019 | | | | |
| Premiums | \$ 3,742 | \$ 606 | \$ 2,507 | \$ 6,855 |
| Net investment income | 427 | 56 | 99 | 582 |
| Fee income | 104 | — | 5 | 109 |
| Other revenues | 43 | 6 | 22 | 71 |
| Total segment revenues ⁽¹⁾ | \$ 4,316 | \$ 668 | \$ 2,633 | \$ 7,617 |
| Segment income ⁽¹⁾ | \$ 414 | \$ 138 | \$ 278 | \$ 830 |
| 2018 | | | | |
| Premiums | \$ 3,568 | \$ 582 | \$ 2,387 | \$ 6,537 |
| Net investment income | 446 | 58 | 99 | 603 |
| Fee income | 99 | — | 4 | 103 |
| Other revenues | 31 | 6 | 17 | 54 |
| Total segment revenues ⁽¹⁾ | \$ 4,144 | \$ 646 | \$ 2,507 | \$ 7,297 |
| Segment income ⁽¹⁾ | \$ 452 | \$ 173 | \$ 129 | \$ 754 |

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

Table of Contents

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, | |
|---|------------------------------------|---------|
| | 2019 | 2018 |
| Revenue reconciliation | | |
| Earned premiums | | |
| Business Insurance: | | |
| Domestic: | | |
| Workers' compensation | \$972 | \$971 |
| Commercial automobile | 628 | 562 |
| Commercial property | 460 | 438 |
| General liability | 567 | 521 |
| Commercial multi-peril | 840 | 805 |
| Other | 8 | 7 |
| Total Domestic | 3,475 | 3,304 |
| International | 267 | 264 |
| Total Business Insurance | 3,742 | 3,568 |
| Bond & Specialty Insurance: | | |
| Domestic: | | |
| Fidelity and surety | 246 | 246 |
| General liability | 257 | 242 |
| Other | 52 | 47 |
| Total Domestic | 555 | 535 |
| International | 51 | 47 |
| Total Bond & Specialty Insurance | 606 | 582 |
| Personal Insurance: | | |
| Domestic: | | |
| Automobile | 1,297 | 1,225 |
| Homeowners and Other | 1,039 | 995 |
| Total Domestic | 2,336 | 2,220 |
| International | 171 | 167 |
| Total Personal Insurance | 2,507 | 2,387 |
| Total earned premiums | 6,855 | 6,537 |
| Net investment income | 582 | 603 |
| Fee income | 109 | 103 |
| Other revenues | 71 | 54 |
| Total segment revenues | 7,617 | 7,297 |
| Other revenues | 1 | — |
| Net realized investment gains (losses) | 53 | (11) |
| Total revenues | \$7,671 | \$7,286 |
| Income reconciliation, net of tax | | |
| Total segment income | \$830 | \$754 |
| Interest Expense and Other ⁽¹⁾ | (75) | (76) |
| Core income | 755 | 678 |
| Net realized investment gains (losses) | 41 | (9) |

| | | |
|------------|-------|-------|
| Net income | \$796 | \$669 |
|------------|-------|-------|

(1) The primary component of Interest Expense and Other was after-tax interest expense of \$70 million for both the three months ended March 31, 2019 and 2018.

10

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

| (in millions) | March 31, 2019 | December 31, 2018 |
|------------------------------------|-------------------|----------------------|
| Asset reconciliation | | |
| Business Insurance | \$ 82,022 | \$ 78,965 |
| Bond & Specialty Insurance | 8,363 | 8,693 |
| Personal Insurance | 16,288 | 15,943 |
| Total assets by reportable segment | 106,673 | 103,601 |
| Other assets ⁽¹⁾ | 573 | 632 |
| Total consolidated assets | \$ 107,246 | \$ 104,233 |

(1) The primary components of other assets at both March 31, 2019 and December 31, 2018 were accrued over-funded benefit plan assets related to the Company's qualified domestic pension plan and other intangible assets.

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, 2019, in millions) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| U.S. Treasury securities and obligations of U.S. government and government agencies and authorities | \$ 2,029 | \$ 7 | \$ 6 | \$ 2,030 |
| Obligations of states, municipalities and political subdivisions: | | | | |
| Local general obligation | 14,879 | 468 | 14 | 15,333 |
| Revenue | 9,757 | 336 | 8 | 10,085 |
| State general obligation | 1,300 | 37 | 2 | 1,335 |
| Pre-refunded | 2,515 | 79 | — | 2,594 |
| Total obligations of states, municipalities and political subdivisions | 28,451 | 920 | 24 | 29,347 |
| Debt securities issued by foreign governments | 1,184 | 12 | 2 | 1,194 |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities | 2,601 | 64 | 16 | 2,649 |
| All other corporate bonds | 29,873 | 482 | 156 | 30,199 |
| Redeemable preferred stock | 78 | 3 | — | 81 |
| Total | \$ 64,216 | \$ 1,488 | \$ 204 | \$ 65,500 |

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

| (at December 31, 2018, in millions) | Amortized Cost | Gross Unrealized Gains Losses | | Fair Value |
|---|-------------------|-------------------------------------|--------|---------------|
| U.S. Treasury securities and obligations of U.S. government and government agencies and authorities | \$ 2,076 | \$ 4 | \$ 16 | \$ 2,064 |
| Obligations of states, municipalities and political subdivisions: | | | | |
| Local general obligation | 14,473 | 219 | 120 | 14,572 |
| Revenue | 9,755 | 172 | 74 | 9,853 |
| State general obligation | 1,329 | 18 | 13 | 1,334 |
| Pre-refunded | 2,772 | 80 | — | 2,852 |
| Total obligations of states, municipalities and political subdivisions | 28,329 | 489 | 207 | 28,611 |
| Debt securities issued by foreign governments | 1,255 | 7 | 5 | 1,257 |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities | 2,557 | 54 | 38 | 2,573 |
| All other corporate bonds | 29,307 | 156 | 583 | 28,880 |
| Redeemable preferred stock | 77 | 2 | — | 79 |
| Total | \$ 63,601 | \$ 712 | \$ 849 | \$ 63,464 |

Pre-refunded bonds of \$2.59 billion and \$2.85 billion at March 31, 2019 and December 31, 2018, respectively, were bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities and obligations of U.S. government and government agencies and authorities. These trusts were created to fund the payment of principal and interest due under the bonds.

Proceeds from sales of fixed maturities classified as available for sale were \$769 million and \$1.09 billion during the three months ended March 31, 2019 and 2018, respectively. Gross gains of \$21 million and \$6 million and gross losses of \$4 million and \$6 million were realized on those sales during the three months ended March 31, 2019 and 2018, respectively.

Equity Securities

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

| (at March 31, 2019, in millions) | Cost | Gross GainLosses | | Fair Value |
|----------------------------------|--------|---------------------|------|---------------|
| Public common stock | \$ 339 | \$ 24 | \$ 6 | \$ 357 |
| Non-redeemable preferred stock | 36 | 7 | — | 43 |
| Total | \$ 375 | \$ 31 | \$ 6 | \$ 400 |

| (at December 31, 2018, in millions) | Cost | Gross GainLosses | | Fair Value |
|-------------------------------------|--------|---------------------|-------|---------------|
| Public common stock | \$ 338 | \$ 2 | \$ 24 | \$ 316 |
| Non-redeemable preferred stock | 44 | 8 | — | 52 |
| Total | \$ 382 | \$ 10 | \$ 24 | \$ 368 |

For the three months ended March 31, 2019, the Company recognized \$39 million of net gains on equity securities still held as of March 31, 2019. For the three months ended March 31, 2018, the Company recognized \$13 million of net losses on equity securities still held as of March 31, 2018.

Table of Contents

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, 2019 and December 31, 2018, 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 2018 Annual Report. The Company also relies upon estimates of several factors in its review and evaluation of individual investments, using the process described in note 1 of notes to the consolidated financial statements in the Company's 2018 Annual Report to determine whether such investments are other-than-temporarily impaired.

| (at March 31, 2019, 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 | \$ 51 | \$ — | \$ 1,056 | \$ 6 | \$ 1,107 | \$ 6 |
| Obligations of states, municipalities and political subdivisions | 103 | — | 2,464 | 24 | 2,567 | 24 |
| Debt securities issued by foreign governments | 15 | — | 255 | 2 | 270 | 2 |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities | 32 | — | 1,333 | 16 | 1,365 | 16 |
| All other corporate bonds | 551 | 7 | 9,622 | 149 | 10,173 | 156 |
| Total fixed maturities | \$ 752 | \$ 7 | \$ 14,730 | \$ 197 | \$ 15,482 | \$ 204 |

| (at December 31, 2018, 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 | \$ 484 | \$ 5 | \$ 1,011 | \$ 11 | \$ 1,495 | \$ 16 |
| Obligations of states, municipalities and political subdivisions | 5,241 | 82 | 3,298 | 125 | 8,539 | 207 |
| Debt securities issued by foreign governments | 96 | — | 328 | 5 | 424 | 5 |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities | 593 | 9 | 1,070 | 29 | 1,663 | 38 |
| All other corporate bonds | 12,622 | 303 | 6,872 | 280 | 19,494 | 583 |
| Total fixed maturities | \$ 19,036 | \$ 399 | \$ 12,579 | \$ 450 | \$ 31,615 | \$ 849 |

At March 31, 2019, the amount of gross unrealized losses for all fixed maturity investments reported at fair value for which fair value was less than 80% of amortized cost was not significant.

Impairment Charges

Impairment charges included in net realized investment gains (losses) in the consolidated statement of income were \$1 million and \$0 for the three months ended March 31, 2019 and 2018, respectively.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

The cumulative amount of credit losses on fixed maturities held at March 31, 2019 and 2018 that were recognized in the consolidated statement of income from other-than-temporary impairments (OTTI) and for which a portion of the OTTI was recognized in other comprehensive income (loss) in the consolidated balance sheet was \$56 million and \$75 million, respectively. These credit losses represent less than 1% of the fixed maturity portfolio on a pre-tax basis and less than 1% of shareholders' equity on an after-tax basis at both dates. There were no significant changes in the credit component of OTTI during the three months ended March 31, 2019 and 2018 compared to what was disclosed in note 3 of notes to the consolidated financial statements in the Company's 2018 Annual Report.

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 99% of its fixed maturities at both March 31, 2019 and December 31, 2018.

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 also estimates the fair value of these bonds using another internal pricing matrix that includes 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 this internal pricing matrix was \$96 million and \$82 million at March 31, 2019 and December 31, 2018, 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 \$19 million and \$104 million at March 31, 2019 and December 31, 2018, 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 2018 Annual Report.

Other Liabilities

The Company has a put/call option that was entered into in connection with a business acquisition that allows the Company to acquire the remaining shares of the acquired company at a future date. The fair value of the put/call at both March 31, 2019 and December 31, 2018 was \$10 million and was determined using an internal model and is based on the acquired company's financial

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

performance, adjusted for a risk margin and discounted to present value. The Company includes the fair value estimate of the put/call in Level 3.

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, 2019, 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 | \$2,030 | \$2,030 | \$— | \$— |
| Obligations of states, municipalities and political subdivisions | 29,347 | — | 29,335 | 12 |
| Debt securities issued by foreign governments | 1,194 | — | 1,194 | — |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities | 2,649 | — | 2,649 | — |
| All other corporate bonds | 30,199 | 4 | 30,092 | 103 |
| Redeemable preferred stock | 81 | 3 | 78 | — |
| Total fixed maturities | 65,500 | 2,037 | 63,348 | 115 |
| Equity securities | | | | |
| Public common stock | 357 | 356 | 1 | — |
| Non-redeemable preferred stock | 43 | 14 | 29 | — |
| Total equity securities | 400 | 370 | 30 | — |
| Other investments | 58 | 16 | — | 42 |
| Total | \$65,958 | \$2,423 | \$63,378 | \$157 |
| Other liabilities | \$10 | \$— | \$— | \$10 |

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

| (at December 31, 2018, 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 | \$2,064 | \$2,064 | \$— | \$— |
| Obligations of states, municipalities and political subdivisions | 28,611 | — | 28,599 | 12 |
| Debt securities issued by foreign governments | 1,257 | — | 1,257 | — |
| Mortgage-backed securities, collateralized mortgage obligations and pass-through securities | 2,573 | — | 2,554 | 19 |
| All other corporate bonds | 28,880 | — | 28,725 | 155 |
| Redeemable preferred stock | 79 | 3 | 76 | — |
| Total fixed maturities | 63,464 | 2,067 | 61,211 | 186 |
| Equity securities | | | | |
| Public common stock | 316 | 316 | — | — |
| Non-redeemable preferred stock | 52 | 30 | 22 | — |
| Total equity securities | 368 | 346 | 22 | — |
| Other investments | 52 | 16 | — | 36 |
| Total | \$63,884 | \$2,429 | \$61,233 | \$ 222 |
| Other liabilities | \$10 | \$— | \$— | \$ 10 |

There was no significant activity in Level 3 of the hierarchy during the three months ended March 31, 2019 or the year ended December 31, 2018.

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, 2019, in millions) | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
|----------------------------------|----------------|------------|---------|---------|---------|
| Financial assets | | | | | |
| Short-term securities | \$ 4,094 | \$4,094 | \$ 483 | \$3,567 | \$ 44 |
| Financial liabilities | | | | | |
| Debt | \$ 6,957 | \$7,984 | \$ — | \$7,984 | \$ — |
| Commercial paper | \$ 100 | \$100 | \$ — | \$100 | \$ — |

| (at December 31, 2018, in millions) | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------------------------|----------------|------------|---------|---------|---------|
| Financial assets | | | | | |
| Short-term securities | \$ 3,985 | \$3,985 | \$ 632 | \$3,316 | \$ 37 |
| Financial liabilities | | | | | |
| Debt | \$ 6,464 | \$7,128 | \$ — | \$7,128 | \$ — |
| Commercial paper | \$ 100 | \$100 | \$ — | \$100 | \$ — |

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, 2019 or year ended December 31, 2018.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company's goodwill by segment. Each reportable segment includes goodwill associated with the Company's international business which is subject to the impact of changes in foreign currency exchange rates.

| (in millions) | March 31, December 31, | |
|----------------------------|------------------------|----------|
| | 2019 | 2018 |
| Business Insurance | \$ 2,594 | \$ 2,585 |
| Bond & Specialty Insurance | 550 | 550 |
| Personal Insurance | 779 | 776 |
| Other | 26 | 26 |
| Total | \$ 3,949 | \$ 3,937 |

Other Intangible Assets

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

| (at March 31, 2019, in millions) | Gross Carrying Amount | Accumulated Amortization | Net |
|----------------------------------|-----------------------------|-----------------------------|-------|
| Subject to amortization | | | |
| Customer-related | \$ 100 | \$ 15 | \$85 |
| Contract-based ⁽¹⁾ | 204 | 174 | 30 |
| Total subject to amortization | 304 | 189 | 115 |
| Not subject to amortization | 226 | — | 226 |
| Total | \$ 530 | \$ 189 | \$341 |

| (at December 31, 2018, in millions) | Gross Carrying Amount | Accumulated Amortization | Net |
|-------------------------------------|-----------------------------|-----------------------------|-------|
| Subject to amortization | | | |
| Customer-related | \$ 98 | \$ 12 | \$86 |
| Contract-based ⁽¹⁾ | 208 | 175 | 33 |
| Total subject to amortization | 306 | 187 | 119 |
| Not subject to amortization | 226 | — | 226 |
| Total | \$ 532 | \$ 187 | \$345 |

(1) Contract-based intangible assets subject to amortization are comprised of fair value adjustments on claims and claim adjustment expense reserves, reinsurance recoverables and other contract-related intangible assets. Fair value adjustments recorded in connection with insurance acquisitions were based on management's estimate of nominal claims and claim adjustment expense reserves and reinsurance recoverables. The method used calculated a risk adjustment to a risk-free discounted reserve that would, if reserves ran off as expected, produce results that yielded the assumed cost-of-capital on the capital supporting the loss reserves. The fair value adjustments are reported as other intangible assets on the consolidated balance sheet, and the amounts measured in accordance with the acquirer's accounting policies for insurance contracts have been reported as part of the claims and claim adjustment

expense reserves and reinsurance recoverables. The intangible assets are being recognized into income over the expected payment pattern. Because the time value of money and the risk adjustment (cost of capital) components of the intangible assets run off at different rates, 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 \$4 million for both the three months ended March 31, 2019 and 2018. Intangible asset amortization expense is estimated to be \$12 million for the remainder of 2019, \$15 million in 2020, \$14 million in 2021, \$13 million in 2022 and \$12 million in 2023. Amortization expense for intangible assets arising from insurance contracts acquired

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, continued

in a business combination is estimated to be \$4 million for the remainder of 2019, \$5 million in 2020, \$4 million in 2021, \$3 million in 2022 and \$3 million in 2023.

6. INSURANCE CLAIM RESERVES

Claims and claim adjustment expense reserves were as follows:

| (in millions) | March 31, December 31, | |
|---------------------|------------------------|-----------|
| | 2019 | 2018 |
| Property-casualty | \$ 50,704 | \$ 50,653 |
| Accident and health | 14 | 15 |
| Total | \$ 50,718 | \$ 50,668 |

The following table presents a reconciliation of beginning and ending property casualty reserve balances for claims and claim adjustment expenses:

| (in millions) | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2019 | 2018 |
| Claims and claim adjustment expense reserves at beginning of year | \$50,653 | \$49,633 |
| Less reinsurance recoverables on unpaid losses | 8,182 | 8,123 |
| Net reserves at beginning of year | 42,471 | 41,510 |
| Estimated claims and claim adjustment expenses for claims arising in the current year | 4,435 | 4,391 |
| Estimated decrease in claims and claim adjustment expenses for claims arising in prior years | (16) | (116) |
| Total increases | 4,419 | 4,275 |
| Claims and claim adjustment expense payments for claims arising in: | | |
| Current year | 970 | 1,009 |
| Prior years | 3,320 | 3,040 |
| Total payments | 4,290 | 4,049 |
| Unrealized foreign exchange (gain) loss | 41 | (10) |
| Net reserves at end of period | 42,641 | 41,726 |
| Plus reinsurance recoverables on unpaid losses | 8,063 | 8,068 |
| Claims and claim adjustment expense reserves at end of period | \$50,704 | \$49,794 |

Gross claims and claim adjustment expense reserves at March 31, 2019 increased by \$51 million from December 31, 2018, primarily reflecting the impacts of (i) higher volumes of insured exposures and loss cost trends for the current accident year and (ii) catastrophe losses in the first three months of 2019, partially offset by the impacts of (iii) payments related to catastrophe losses incurred in 2018 and (iv) net favorable prior year reserve development.

Reinsurance recoverables on unpaid losses at March 31, 2019 decreased by \$119 million from December 31, 2018, primarily reflecting the impact of cash collections in the first three months of 2019.

Prior Year Reserve Development

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

For the three months ended March 31, 2019 and 2018, estimated claims and claim adjustment expenses incurred included \$16 million and \$116 million, respectively, of net favorable development for claims arising in prior years, including \$51 million and

18

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. INSURANCE CLAIM RESERVES, Continued

\$150 million, respectively, of net favorable prior year reserve development and \$12 million and \$13 million, respectively, of accretion of discount that impacted the Company's results of operations.

Business Insurance. Net unfavorable prior year reserve development in the first quarter of 2019 totaled \$21 million, primarily driven by higher than expected loss experience in the segment's domestic operations in (i) the general liability product line for multiple accident years, primarily for years prior to 2009, due to the enactment by New York State of the Child Victims Act ("CVA") on February 14, 2019 and (ii) the commercial multi-peril product line for recent accident years, partially offset by (iii) better than expected loss experience in the segment's domestic operations in the workers' compensation product line for multiple accident years. The CVA extends the statute of limitations for claimants asserting childhood sexual molestation, including a "reviver" component that allows claimants of any age to file a civil claim during a one-year window beginning six months after the CVA took effect. Net favorable prior year reserve development in the first quarter of 2018 totaled \$66 million, primarily driven by better than expected loss experience in the segment's domestic operations in (i) the workers' compensation product line for recent accident years and (ii) the commercial property product line for accident year 2016, partially offset by (iii) higher than expected loss experience in the commercial automobile product line for recent accident years.

Bond & Specialty Insurance. Net favorable prior year reserve development in the first quarter of 2019 of \$3 million was not significant. Net favorable prior year reserve development in the first quarter of 2018 totaled \$35 million, primarily driven by better than expected loss experience in the segment's domestic operations in the general liability product line for multiple accident years.

Personal Insurance. Net favorable prior year reserve development in the first quarter of 2019 totaled \$69 million, primarily driven by better than expected loss experience in the segment's domestic operations in the automobile product line for recent accident years. Net favorable prior year reserve development in the first quarter of 2018 totaled \$49 million, primarily driven by better than expected loss experience in the segment's domestic operations in the homeowners and other product line for accident years 2016 and 2017 and in the automobile product line for accident year 2017.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in the Company's accumulated other comprehensive income (loss) (AOCI) for the three months ended March 31, 2019.

| (in millions) | Changes in Net Unrealized Gains (Losses) on Investment Securities | | | | | Total Accumulated Other Comprehensive Income (Loss) |
|---|--|--|---|---|-------------|--|
| | Having No Credit Losses Recognized in the Consolidated Statement of Income | 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 | | |
| Balance, December 31, 2018 | \$ (306) | \$ 193 | \$ (873) | \$ (873) | \$ (1,859) | |
| Other comprehensive income (OCI) before reclassifications, net of tax | 1,129 | 4 | — | 47 | 1,180 | |
| Amounts reclassified from AOCI, net of tax | (13) | — | 10 | — | (3) | |
| Net OCI, current period | 1,116 | 4 | 10 | 47 | 1,177 | |
| Balance, March 31, 2019 | \$ 810 | \$ 197 | \$ (863) | \$ (826) | \$ (682) | |

The following table presents the pre-tax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit).

| (in millions) | Three Months Ended March 31, 2019 2018 | |
|--|---|-----------|
| | 2019 | 2018 |
| Changes in net unrealized gains (losses) on investment securities: | | |
| Having no credit losses recognized in the consolidated statement of income | \$ 1,416 | \$(1,203) |
| Income tax expense (benefit) | 300 | (253) |
| Net of taxes | 1,116 | (950) |
| Having credit losses recognized in the consolidated statement of income | 5 | (2) |
| Income tax expense (benefit) | 1 | (1) |
| Net of taxes | 4 | (1) |
| Net changes in benefit plan assets and obligations | 12 | 22 |
| Income tax expense | 2 | 5 |
| Net of taxes | 10 | 17 |
| Net changes in unrealized foreign currency translation | 50 | 6 |

Edgar Filing: TRAVELERS COMPANIES, INC. - Form 10-Q

| | | |
|---|---------|----------|
| Income tax expense | 3 | 5 |
| Net of taxes | 47 | 1 |
| Total other comprehensive income (loss) | 1,483 | (1,177) |
| Total income tax expense (benefit) | 306 | (244) |
| Total other comprehensive income (loss), net of taxes | \$1,177 | \$(933) |

20

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

The following table presents the pre-tax and related income tax (expense) benefit components of the amounts reclassified from the Company's AOCI to the Company's consolidated statement of income.

| (in millions) | Three Months Ended March 31, 2019 2018 | |
|---|--|-------|
| Reclassification adjustments related to unrealized gains (losses) on investment securities: | | |
| Having no credit losses recognized in the consolidated statement of income ⁽¹⁾ | \$(16) | \$ — |
| Income tax expense ⁽²⁾ | (3) | — |
| Net of taxes | (13) | — |
| Having credit losses recognized in the consolidated statement of income ⁽¹⁾ | — | — |
| Income tax benefit ⁽²⁾ | — | — |
| Net of taxes | — | — |
| Reclassification adjustment related to benefit plan assets and obligations: | | |
| Claims and claim adjustment expenses ⁽³⁾ | 5 | 9 |
| General and administrative expenses ⁽³⁾ | 8 | 13 |
| Total | 13 | 22 |
| Income tax benefit ⁽²⁾ | 3 | 5 |
| Net of taxes | 10 | 17 |
| Reclassification adjustment related to foreign currency translation ⁽¹⁾ | — | — |
| Income tax benefit ⁽²⁾ | — | — |
| Net of taxes | — | — |
| Total reclassifications | (3) | 22 |
| Total income tax (expense) benefit | — | 5 |
| Total reclassifications, net of taxes | \$(3) | \$ 17 |

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

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

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

8. DEBT

Debt Issuance. On March 4, 2019, the Company issued \$500 million aggregate principal amount of 4.10% senior notes that will mature on March 4, 2049. The net proceeds of the issuance, after the deduction of the underwriting discount and expenses payable by the Company, totaled approximately \$492 million. Interest on the senior notes is payable semi-annually in arrears on March 4 and September 4. Prior to September 4, 2048, the senior notes may be redeemed, in whole or in part, at the Company's option, at any time or from time to time, at a redemption price equal to the greater of (a) 100% of the principal amount of any senior notes to be redeemed or (b) the sum of the present values of the remaining scheduled payments of principal and interest to but excluding September 4, 2048 on any senior notes

to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current Treasury rate (as defined in the senior notes), plus 20 basis points. On or after September 4, 2048, the senior notes may be redeemed, in whole or in part, at the Company's option, at any time or from time to time, at a redemption price equal to 100% of the principal amount of any senior notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

Commercial Paper. The Company had \$100 million of commercial paper outstanding at both March 31, 2019 and December 31, 2018.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

9. COMMON SHARE REPURCHASES

During the three months ended March 31, 2019, the Company repurchased 2.9 million shares under its share repurchase authorization, for a total cost of \$375 million. The average cost per share repurchased was \$129.42. In addition, the Company acquired 0.4 million shares for a total cost of \$46 million during the three months ended March 31, 2019 that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock unit awards and performance share awards, and shares used by employees to cover the price of certain stock options that were exercised. At March 31, 2019, the Company had \$2.91 billion of capacity remaining under its share repurchase authorization.

10. EARNINGS PER SHARE

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

| (in millions, except per share amounts) | Three Months Ended March 31, 2019 2018 | |
|--|---|--------|
| Basic and Diluted | | |
| Net income, as reported | \$796 | \$669 |
| Participating share-based awards — allocated income | (5) | (5) |
| Net income available to common shareholders — basic and diluted | \$791 | \$664 |
| Common Shares | | |
| Basic | | |
| Weighted average shares outstanding | 262.9 | 271.0 |
| Diluted | | |
| Weighted average shares outstanding | 262.9 | 271.0 |
| Weighted average effects of dilutive securities — stock options and performance shares | 1.9 | 2.9 |
| Total | 264.8 | 273.9 |
| Net Income per Common Share | | |
| Basic | \$3.01 | \$2.45 |
| Diluted | \$2.99 | \$2.42 |

11. SHARE-BASED INCENTIVE COMPENSATION

The following information relates to fully vested stock option awards at March 31, 2019:

| Stock Options Number | Weighted Average Exercise | Weighted Average Contractual | Aggregate Intrinsic Value |
|----------------------|---------------------------------|------------------------------------|---------------------------------|
|----------------------|---------------------------------|------------------------------------|---------------------------------|

| | Price | Life | (\$ in millions) |
|--|-----------|-----------|------------------|
| Vested at end of period ⁽¹⁾ | 7,029,165 | \$ 103.80 | 5.8 years |
| Exercisable at end of period | 5,124,196 | \$ 94.88 | 4.7 years |

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. SHARE-BASED INCENTIVE COMPENSATION, Continued

The total compensation cost for all share-based incentive compensation awards recognized in earnings was \$45 million and \$44 million for the three months ended March 31, 2019 and 2018, respectively. The related tax benefits recognized in the consolidated statement of income were \$8 million for both the three months ended March 31, 2019 and 2018.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at March 31, 2019 was \$235 million, which is expected to be recognized over a weighted-average period of 2.2 years.

12. 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, 2019 and 2018.

| (for the three months ended March 31, in millions) | Pension Plans | | Postretirement Benefit Plans | |
|--|---------------|-------|------------------------------|------|
| | 2019 | 2018 | 2019 | 2018 |
| Net Periodic Benefit Cost: | | | | |
| Service cost | \$ 30 | \$ 33 | \$ — | \$ — |
| Non-service cost: | | | | |
| Interest cost on benefit obligation | 35 | 31 | 2 | 2 |
| Expected return on plan assets | (69) | (66) | — | — |
| Amortization of unrecognized: | | | | |
| Prior service benefit | — | — | (1) | (1) |
| Net actuarial loss | 14 | 23 | — | — |
| Total non-service cost (benefit) | (20) | (12) | 1 | 1 |
| Net periodic benefit cost | \$ 10 | \$ 21 | \$ 1 | \$ 1 |

The following table indicates the line items in which the respective service costs and non-service cost (benefit) are presented in the consolidated statement of income for the three months ended March 31, 2019 and 2018.

| (for the three months ended March 31, in millions) | Pension Plans | | Postretirement Benefit Plans | |
|--|---------------|-------|------------------------------|------|
| | 2019 | 2018 | 2019 | 2018 |
| Service Cost: | | | | |
| Claims and claim adjustment expenses | \$ 12 | \$ 13 | \$ — | \$ — |
| General and administrative expenses | 18 | 20 | — | — |
| Total service cost | 30 | 33 | — | — |
| Non-Service Cost (Benefit): | | | | |
| Claims and claim adjustment expenses | (8) | (5) | — | — |
| General and administrative expenses | (12) | (7) | 1 | 1 |
| Total non-service cost (benefit) | (20) | (12) | 1 | 1 |
| Net periodic benefit cost | \$ 10 | \$ 21 | \$ 1 | \$ 1 |

13. LEASES

The Company enters into lease agreements for real estate that is primarily used for office space in the ordinary course of business. These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease. See note 1 - Adoption of Accounting Standards - Leases for additional information regarding the accounting for leases.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

13. LEASES, Continued

Most leases include an option to extend or renew the lease term. The exercise of the renewal option is at the Company's discretion. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. The Company, in determining the present value of lease payments, utilizes either the rate implicit in the lease if that rate is readily determinable or the Company's incremental secured borrowing rate commensurate with the term of the underlying lease.

Lease expense is included in general and administrative expenses in the consolidated statement of income. Additional information regarding the Company's real estate operating leases is as follows:

| (in millions) | Three Months Ended March 31, 2019 |
|---|--|
| Lease cost | |
| Operating leases | \$ 22 |
| Short-term leases ⁽¹⁾ | 4 |
| Lease expense | 26 |
| Less: sublease income ⁽²⁾ | — |
| Net lease cost | \$ 26 |
| Other information on operating leases | |
| Cash payments included in the measurement of lease liabilities reported in operating cash flows | \$ 24 |
| Right-of-use assets obtained in exchange for new lease liabilities | \$ 8 |
| Weighted average discount rate | 3.07 % |
| Weighted average remaining lease term in years | 5.2 years |

(1) Leases with an initial term of twelve months or less are not recorded on the balance sheet.

(2) Sublease income consists of rent from third parties of office space and is recognized as part of other revenues in the consolidated statement of income.

The following table presents the contractual maturities of the Company's lease liabilities:

| (in millions) | Real Estate Lease Liability |
|-------------------|--------------------------------------|
| Remainder of 2019 | \$ 73 |
| 2020 | 95 |
| 2021 | 82 |
| 2022 | 61 |
| 2023 | 41 |
| Thereafter | 62 |

| | |
|-----------------------------------|--------|
| Total undiscounted lease payments | 414 |
| Less: present value adjustment | 30 |
| Operating lease liability | \$ 384 |

14. 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.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

14. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Asbestos and Environmental Claims and Litigation

In the ordinary course of its insurance business, the Company has received and continues to receive claims for insurance arising under policies issued by the Company asserting alleged injuries and damages from asbestos- and environmental-related exposures that are the subject of related coverage litigation. The Company is defending asbestos- and environmental-related litigation vigorously and believes that it has meritorious defenses; however, the outcomes of these disputes are uncertain. In this regard, the Company employs dedicated specialists and comprehensive 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 future loss development for claims and litigation relating to asbestos and environmental claims. Any such development could be affected by future court decisions and interpretations, as well as future changes, if any, in applicable legislation. Because of these uncertainties, additional liabilities may arise for amounts in excess of the Company's current insurance reserves. In addition, the Company's estimate of ultimate claims and claim adjustment expenses may change. These additional liabilities or changes 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.

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 \$1.56 billion and \$1.60 billion at March 31, 2019 and December 31, 2018, respectively.

Guarantees

The maximum amount of the Company's contingent obligation for indemnifications related to the sale of businesses that are quantifiable was \$358 million at March 31, 2019.

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 \$0 at March 31, 2019. 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, 2019, 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 2018 Annual Report.

15. 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) and Travelers Insurance Group Holdings, Inc. (TIGHI), which totaled \$700 million at March 31, 2019.

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, TIGHI. Concurrent with the merger, TRV fully and unconditionally assumed such guarantee obligations of TPC. TPC is deemed to have no assets or

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

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.

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2019

| (in millions) | TPC | Other Subsidiaries | TRV | Eliminations | Consolidated |
|--|---------|-----------------------|-------|--------------|--------------|
| Revenues | | | | | |
| Premiums | \$4,689 | \$ 2,166 | \$— | \$ — | \$ 6,855 |
| Net investment income | 416 | 155 | 11 | — | 582 |
| Fee income | 109 | — | — | — | 109 |
| Net realized investment gains ⁽¹⁾ | 22 | 15 | 16 | — | 53 |
| Other revenues | 38 | 34 | — | — | 72 |
| Total revenues | 5,274 | 2,370 | 27 | — | 7,671 |
| Claims and expenses | | | | | |
| Claims and claim adjustment expenses | 3,024 | 1,418 | — | — | 4,442 |
| Amortization of deferred acquisition costs | 745 | 372 | — | — | 1,117 |
| General and administrative expenses | 722 | 330 | 5 | — | 1,057 |
| Interest expense | 12 | — | 76 | — | 88 |
| Total claims and expenses | 4,503 | 2,120 | 81 | — | 6,704 |
| Income (loss) before income taxes | 771 | 250 | (54) | — | 967 |
| Income tax expense (benefit) | 146 | 42 | (17) | — | 171 |
| Net income of subsidiaries | — | — | 833 | (833) | — |
| Net income | \$625 | \$ 208 | \$796 | \$ (833) | \$ 796 |

Total other-than-temporary impairments (OTTI) for the three months ended March 31, 2019, and the amounts (1) comprising total OTTI that were recognized in net realized investment gains and in other comprehensive income (OCI) were as follows:

| (in millions) | TPC | Other Subsidiaries | TRV | Eliminations | Consolidated |
|---|-------|-----------------------|-----|--------------|--------------|
| Total OTTI losses | \$(1) | \$ — | —\$ | —\$ | —\$ (1) |
| OTTI losses recognized in net realized investment gains | \$(1) | \$ — | —\$ | —\$ | —\$ (1) |
| OTTI losses recognized in OCI | \$— | \$ — | —\$ | —\$ | —\$ — |

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2018

| (in millions) | TPC | Other Subsidiaries | TRV | Eliminations | Consolidated |
|---|---------|-----------------------|-------|--------------|--------------|
| Revenues | | | | | |
| Premiums | \$4,468 | \$ 2,069 | \$— | \$ — | \$ 6,537 |
| Net investment income | 412 | 185 | 6 | — | 603 |
| Fee income | 103 | — | — | — | 103 |
| Net realized investment gains (losses) ⁽¹⁾ | 2 | (12) | (1) | — | (11) |
| Other revenues | 27 | 28 | — | (1) | 54 |
| Total revenues | 5,012 | 2,270 | 5 | (1) | 7,286 |
| Claims and expenses | | | | | |
| Claims and claim adjustment expenses | 2,910 | 1,386 | — | — | 4,296 |
| Amortization of deferred acquisition costs | 705 | 356 | — | — | 1,061 |
| General and administrative expenses | 729 | 328 | 6 | (1) | 1,062 |
| Interest expense | 11 | — | 78 | — | 89 |
| Total claims and expenses | 4,355 | 2,070 | 84 | (1) | 6,508 |
| Income (loss) before income taxes | 657 | 200 | (79) | — | 778 |
| Income tax expense (benefit) | 106 | 32 | (29) | — | 109 |
| Net income of subsidiaries | — | — | 719 | (719) | — |
| Net income | \$551 | \$ 168 | \$669 | \$ (719) | \$ 669 |

Total other-than-temporary impairments (OTTI) for the three months ended March 31, 2018, and the amounts (1) comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (loss) (OCI) were as follows:

| (in millions) | TPC | Other Subsidiaries | TRV | Eliminations | Consolidated |
|--|------|-----------------------|-----|--------------|--------------|
| Total OTTI losses | \$ — | —\$ | —\$ | —\$ | — |
| OTTI losses recognized in net realized investment gains (losses) | \$ — | —\$ | —\$ | —\$ | — |
| OTTI gains recognized in OCI | \$ — | —\$ | —\$ | —\$ | — |

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended March 31, 2019

| (in millions) | TPC | Other Subsidiaries | TRV | Eliminations | Consolidated |
|---|---------|-----------------------|---------|--------------|--------------|
| Net income | \$625 | \$ 208 | \$796 | \$ (833) | \$ 796 |
| Other comprehensive income: | | | | | |
| Changes in net unrealized gains (losses) on investment securities: | | | | | |
| Having no credit losses recognized in the consolidated statement of income | 979 | 435 | 2 | — | 1,416 |
| Having credit losses recognized in the consolidated statement of income | 4 | 1 | — | — | 5 |
| Net changes in benefit plan assets and obligations | — | — | 12 | — | 12 |
| Net changes in unrealized foreign currency translation | 19 | 31 | — | — | 50 |
| Other comprehensive income before income taxes and other comprehensive income of subsidiaries | 1,002 | 467 | 14 | — | 1,483 |
| Income tax expense | 208 | 93 | 5 | — | 306 |
| Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries | 794 | 374 | 9 | — | 1,177 |
| Other comprehensive income of subsidiaries | — | — | 1,168 | (1,168) | — |
| Other comprehensive income | 794 | 374 | 1,177 | (1,168) | 1,177 |
| Comprehensive income | \$1,419 | \$ 582 | \$1,973 | \$ (2,001) | \$ 1,973 |

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

For the three months ended March 31, 2018

| (in millions) | TPC | Other Subsidiaries | TRV | Eliminations | Consolidated |
|--|---------|-----------------------|---------|--------------|--------------|
| Net income | \$551 | \$ 168 | \$669 | \$ (719) | \$ 669 |
| Other comprehensive income (loss): | | | | | |
| Changes in net unrealized gains (losses) on investment securities: | | | | | |
| Having no credit losses recognized in the consolidated statement of income | (838) | (364) | (1) | — | (1,203) |
| Having credit losses recognized in the consolidated statement of income | (1) | (1) | — | — | (2) |
| Net changes in benefit plan assets and obligations | — | — | 22 | — | 22 |
| Net changes in unrealized foreign currency translation | (25) | 31 | — | — | 6 |
| Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries | (864) | (334) | 21 | — | (1,177) |
| Income tax expense (benefit) | (175) | (77) | 8 | — | (244) |
| Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries | (689) | (257) | 13 | — | (933) |
| Other comprehensive loss of subsidiaries | — | — | (946) | 946 | — |
| Other comprehensive loss | (689) | (257) | (933) | 946 | (933) |
| Comprehensive loss | \$(138) | \$ (89) | \$(264) | \$ 227 | \$ (264) |

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At March 31, 2019

| (in millions) | TPC | Other Subsidiaries | TRV | Eliminations | Consolidated |
|---|----------|-----------------------|-----------|--------------|--------------|
| Assets | | | | | |
| Fixed maturities, available for sale, at fair value (amortized cost \$64,216) | \$45,336 | \$ 20,079 | \$85 | \$ — | \$ 65,500 |
| Equity securities, at fair value (cost \$375) | 105 | 106 | 189 | — | 400 |
| Real estate investments | 1 | 968 | — | — | 969 |
| Short-term securities | 1,645 | 581 | 1,868 | — | 4,094 |
| Other investments | 2,772 | 781 | 1 | — | 3,554 |
| Total investments | 49,859 | 22,515 | 2,143 | — | 74,517 |
| Cash | 150 | 207 | — | — | 357 |
| Investment income accrued | 406 | 182 | 3 | — | 591 |
| Premiums receivable | 5,356 | 2,591 | — | — | 7,947 |
| Reinsurance recoverables | 6,496 | 1,785 | — | — | 8,281 |
| Ceded unearned premiums | 838 | 97 | — | — | 935 |
| Deferred acquisition costs | 1,987 | 203 | — | — | 2,190 |
| Deferred taxes | (76) | 222 | (31) | — | 115 |
| Contractholder receivables | 4,801 | 10 | — | — | 4,811 |
| Goodwill | 2,581 | 1,377 | — | (9) | 3,949 |
| Other intangible assets | 222 | 119 | — | — | 341 |
| Investment in subsidiaries | — | — | 28,475 | (28,475) | — |
| Other assets | 2,470 | 393 | 349 | — | 3,212 |
| Total assets | \$75,090 | \$ 29,701 | \$30,939 | \$ (28,484) | \$ 107,246 |
| Liabilities | | | | | |
| Claims and claim adjustment expense reserves | \$34,800 | \$ 15,918 | \$— | \$ — | \$ 50,718 |
| Unearned premium reserves | 9,872 | 4,250 | — | — | 14,122 |
| Contractholder payables | 4,801 | 10 | — | — | 4,811 |
| Payables for reinsurance premiums | 380 | 255 | — | — | 635 |
| Debt | 693 | — | 6,364 | — | 7,057 |
| Other liabilities | 4,287 | 1,049 | 227 | — | 5,563 |
| Total liabilities | 54,833 | 21,482 | 6,591 | — | 82,906 |
| Shareholders' equity | | | | | |
| Common stock (1,750.0 shares authorized; 262.0 shares issued and 261.9 shares outstanding) | — | 401 | 23,243 | (401) | 23,243 |
| Additional paid-in capital | 11,634 | 7,083 | — | (18,717) | — |
| Retained earnings | 8,390 | 807 | 35,803 | (9,205) | 35,795 |
| Accumulated other comprehensive income (loss) | 233 | (72) | (682) | (161) | (682) |
| Treasury stock, at cost (514.2 shares) | — | — | (34,016) | — | (34,016) |
| Total shareholders' equity | 20,257 | 8,219 | 24,348 | (28,484) | 24,340 |
| Total liabilities and shareholders' equity | \$75,090 | \$ 29,701 | \$30,939 | \$ (28,484) | \$ 107,246 |

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At December 31, 2018

| (in millions) | TPC | Other Subsidiaries | TRV | Eliminations | Consolidated |
|--|----------|-----------------------|----------|--------------|--------------|
| Assets | | | | | |
| Fixed maturities, available for sale, at fair value (amortized cost \$63,601) | \$43,683 | \$ 19,697 | \$84 | \$ — | \$ 63,464 |
| Equity securities, available for sale, at fair value (cost \$382) | 105 | 92 | 171 | — | 368 |
| Real estate investments | 2 | 902 | — | — | 904 |
| Short-term securities | 1,855 | 759 | 1,371 | — | 3,985 |
| Other investments | 2,746 | 810 | 1 | — | 3,557 |
| Total investments | 48,391 | 22,260 | 1,627 | — | 72,278 |
| Cash | 181 | 192 | — | — | 373 |
| Investment income accrued | 434 | 187 | 3 | — | 624 |
| Premiums receivable | 5,089 | 2,417 | — | — | 7,506 |
| Reinsurance recoverables | 5,904 | 2,466 | — | — | 8,370 |
| Ceded unearned premiums | 522 | 56 | — | — | 578 |
| Deferred acquisition costs | 1,930 | 190 | — | — | 2,120 |
| Deferred taxes | 167 | 302 | (24 |) — | 445 |
| Contractholder receivables | 3,867 | 918 | — | — | 4,785 |
| Goodwill | 2,578 | 1,368 | — | (9 |) 3,937 |
| Other intangible assets | 224 | 121 | — | — | 345 |
| Investment in subsidiaries | — | — | 26,993 | (26,993 |) — |
| Other assets | 2,220 | 15 | 669 | (32 |) 2,872 |
| Total assets | \$71,507 | \$ 30,492 | \$29,268 | \$ (27,034 |) \$ 104,233 |
| Liabilities | | | | | |
| Claims and claim adjustment expense reserves | \$34,093 | \$ 16,575 | \$— | \$— | \$ 50,668 |
| Unearned premium reserves | 9,414 | 4,141 | — | — | 13,555 |
| Contractholder payables | 3,867 | 918 | — | — | 4,785 |
| Payables for reinsurance premiums | 169 | 120 | — | — | 289 |
| Debt | 693 | 32 | 5,871 | (32 |) 6,564 |