TRAVELERS COMPANIES, INC.
Form 10-Q
October 19, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

or

o 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 incorporation or organization)	(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 x No o

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o
		Emerging growth company	o

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. o

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

The number of shares of the Registrant s Common Stock, without par value, outstanding at October 16, 2017 was 273,695,876.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended September 30, 2017

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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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenues				
Premiums	**$ 6,523**	$ 6,209	**$ 19,057**	$ 18,257
Net investment income	**588**	582	**1,796**	1,675
Fee income	**113**	116	**342**	352
Net realized investment gains (1)	**61**	23	**146**	33
Other revenues	**40**	31	**110**	115
Total revenues	**7,325**	6,961	**21,451**	20,432
Claims and expenses				
Claims and claim adjustment expenses	**4,806**	3,856	**13,125**	11,330
Amortization of deferred acquisition costs	**1,059**	1,012	**3,094**	2,972
General and administrative expenses	**1,045**	1,057	**3,086**	3,106
Interest expense	**95**	89	**276**	273
Total claims and expenses	**7,005**	6,014	**19,581**	17,681
Income before income taxes	**320**	947	**1,870**	2,751
Income tax expense	**27**	231	**365**	680
Net income	**$ 293**	$ 716	**$ 1,505**	$ 2,071
Net income per share				
Basic	**$ 1.06**	$ 2.48	**$ 5.39**	$ 7.09
Diluted	**$ 1.05**	$ 2.45	**$ 5.34**	$ 7.00
Weighted average number of common shares outstanding				
Basic	**274.1**	286.0	**277.1**	290.0
Diluted	**276.6**	289.8	**279.6**	293.6
Cash dividends declared per common share	**$ 0.72**	$ 0.67	**$ 2.11**	$ 1.95

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(1) Total other-than-temporary impairment (OTTI) losses were $(5) million and $(4) million for the three months ended September 30, 2017 and 2016, respectively, and $(11) million and $(36) million for the nine months ended September 30, 2017 and 2016, respectively. Of total OTTI, credit losses of $(5) million and $(4) million for the three months ended September 30, 2017 and 2016, respectively, and $(12) million and $(26) million for the nine months

ended September 30, 2017 and 2016, respectively, were recognized in net realized investment gains. In addition, unrealized gains (losses) from other changes in total OTTI of $0 million for each of the three months ended September 30, 2017 and 2016, and $1 million and $(10) million for the nine months ended September 30, 2017 and 2016, respectively, were recognized in other comprehensive income (loss) as part of changes in net unrealized gains on investment securities having credit losses recognized in the consolidated statement of income.

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(in millions)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net income	**$ 293**	$ 716	**$ 1,505**	$ 2,071
Other comprehensive income (loss):				
Changes in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	**(42)**	(455)	**429**	1,138
Having credit losses recognized in the consolidated statement of income	**2**	6	**4**	23
Net changes in benefit plan assets and obligations	**(9)**	16	**25**	50
Net changes in unrealized foreign currency translation	**113**	(31)	**202**	37
Other comprehensive income (loss) before income taxes	**64**	(464)	**660**	1,248
Income tax expense (benefit)	**5**	(159)	**190**	431
Other comprehensive income (loss), net of taxes	**59**	(305)	**470**	817
Comprehensive income	**$ 352**	$ 411	**$ 1,975**	$ 2,888

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)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Fixed maturities, available for sale, at fair value (amortized cost $60,727 and $59,650)	**$ 62,157**	$ 60,515
Equity securities, available for sale, at fair value (cost $509 and $504)	**601**	732
Real estate investments	**923**	928
Short-term securities	**5,859**	4,865
Other investments	**3,552**	3,448
Total investments	**73,092**	70,488
Cash	**379**	307
Investment income accrued	**568**	630
Premiums receivable	**7,267**	6,722
Reinsurance recoverables	**8,345**	8,287
Ceded unearned premiums	**688**	589
Deferred acquisition costs	**2,077**	1,923
Deferred taxes	**243**	465
Contractholder receivables	**4,757**	4,609
Goodwill	**3,946**	3,580
Other intangible assets	**345**	268
Other assets	**2,604**	2,377
Total assets	**$ 104,311**	$ 100,245
Liabilities		
Claims and claim adjustment expense reserves	**$ 49,750**	$ 47,949
Unearned premium reserves	**13,247**	12,329
Contractholder payables	**4,757**	4,609
Payables for reinsurance premiums	**423**	273
Debt	**6,921**	6,437
Other liabilities	**5,475**	5,427
Total liabilities	**80,573**	77,024
Shareholders equity		
Common stock (1,750.0 shares authorized; 273.8 and 279.6 shares issued, 273.7 and 279.6 shares outstanding)	**22,836**	22,614
Retained earnings	**33,110**	32,196
Accumulated other comprehensive loss	**(285)**	(755)
Treasury stock, at cost (498.3 and 489.5 shares)	**(31,923)**	(30,834)
Total shareholders equity	**23,738**	23,221
Total liabilities and shareholders equity	**$ 104,311**	$ 100,245

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 CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the nine months ended September 30,	2017	2016
Common stock		
Balance, beginning of year	**$ 22,614**	$ 22,172
Employee share-based compensation	**118**	123
Compensation amortization under share-based plans and other changes	**104**	124
Balance, end of period	**22,836**	22,419
Retained earnings		
Balance, beginning of year	**32,196**	29,945
Net income	**1,505**	2,071
Dividends	**(591)**	(571)
Other		(2)
Balance, end of period	**33,110**	31,443
Accumulated other comprehensive income (loss), net of tax		
Balance, beginning of year	**(755)**	(157)
Other comprehensive income	**470**	817
Balance, end of period	**(285)**	660
Treasury stock (at cost)		
Balance, beginning of year	**(30,834)**	(28,362)
Treasury stock acquired share repurchase authorization	**(1,028)**	(1,650)
Net shares acquired related to employee share-based compensation plans	**(61)**	(71)
Balance, end of period	**(31,923)**	(30,083)
Total shareholders equity	**$ 23,738**	$ 24,439
Common shares outstanding		
Balance, beginning of year	**279.6**	295.9
Treasury stock acquired share repurchase authorization	**(8.3)**	(14.7)
Net shares issued under employee share-based compensation plans	**2.4**	2.9
Balance, end of period	**273.7**	284.1

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

For the nine months ended September 30,	**2017**	**2016**
Cash flows from operating activities		
Net income	**$ 1,505**	$ 2,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	**(146)**	(33)
Depreciation and amortization	**611**	624
Deferred federal income tax expense	**88**	29
Amortization of deferred acquisition costs	**3,094**	2,972
Equity in income from other investments	**(300)**	(114)
Premiums receivable	**(517)**	(340)
Reinsurance recoverables	**(19)**	248
Deferred acquisition costs	**(3,237)**	(3,096)
Claims and claim adjustment expense reserves	**1,561**	(139)
Unearned premium reserves	**852**	725
Other	**(268)**	116
Net cash provided by operating activities	**3,224**	3,063
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**6,581**	6,648
Proceeds from sales of investments:		
Fixed maturities	**860**	865
Equity securities	**340**	71
Real estate investments	**23**	69
Other investments	**603**	569
Purchases of investments:		
Fixed maturities	**(8,403)**	(9,004)
Equity securities	**(193)**	(36)
Real estate investments	**(40)**	(30)
Other investments	**(392)**	(422)
Net purchases of short-term securities	**(990)**	(135)
Securities transactions in course of settlement	**122**	511
Acquisition, net of cash acquired	**(439)**	
Other	**(187)**	(240)
Net cash used in investing activities	**(2,115)**	(1,134)
Cash flows from financing activities		
Treasury stock acquired share repurchase authorization	**(1,028)**	(1,650)
Treasury stock acquired net employee share-based compensation	**(61)**	(71)
Dividends paid to shareholders	**(589)**	(569)
Payment of debt	**(207)**	(400)
Issuance of debt	**689**	491
Issuance of common stock employee share options	**148**	164
Net cash used in financing activities	**(1,048)**	(2,035)
Effect of exchange rate changes on cash	**11**	(5)
Net increase (decrease) in cash	**72**	(111)
Cash at beginning of year	**307**	380
Cash at end of period	**$ 379**	$ 269

Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**467**	$	648
Interest paid	**$**	**217**	$	223

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company s management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016 (the Company s 2016 Annual Report) as updated by the Company s Current Report on Form 8-K filed on June 20, 2017. The Form 8-K was filed to reclassify certain of the Company s historical segment information to conform the presentation of such segment information to the manner in which the Company s businesses have been managed beginning April 1, 2017 (as described in more detail below) and reflect the revised names and descriptions of certain businesses comprising these segments and other related changes.

The preparation of the interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and claims and expenses during the reporting period. Actual results could differ from those estimates.

On August 4, 2017, the Company completed its previously announced acquisition of all issued and outstanding shares of Simply Business Holdings LTD (Simply Business), a leading provider of small business insurance policies in the United Kingdom, for a purchase price of approximately $464 million, which included the repayment of debt and other obligations of Simply Business. In addition, the Company issued 95,953 shares of restricted common stock valued at approximately $12 million to certain employees of Simply Business who were equity holders of Simply Business. Subject to the satisfaction of certain conditions, 50% of the restricted stock will vest two years from the issuance date and the remainder will vest three years from the issuance date. The Company used a portion of the net proceeds from the issuance of senior notes in May 2017 (described in more detail in note 8) and internal resources to fund this transaction.

Adoption of Accounting Standards

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

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

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

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

In March 2017, the FASB issued updated guidance to improve the presentation of net periodic pension cost and net periodic post retirement cost (net benefit costs). Net benefit costs comprise several components that reflect different aspects of an employer s financial arrangements as well as the cost of benefits provided to employees. The update requires that the employer service cost component be reported in the same lines as other employee compensation cost and that the other components (non-service costs) be presented separately from the service cost and outside of a subtotal of income from operations if one is presented. The update also allows only the service cost component to be eligible for capitalization in assets when applicable.

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

The Company adopted the updated guidance effective January 1, 2017. See note 12 which has been expanded to disclose the amount of service cost and non-service cost components of net periodic benefit cost and the line items in the consolidated statement of income in which such amounts are reported. The updated guidance with respect to only service costs being eligible for capitalization in assets was not applicable.

For information regarding accounting standards that the Company adopted during the years presented, see the Adoption of Accounting Standards section of note 1 of notes to the consolidated financial statements in the Company s 2016 Annual Report as updated by the Company s Current Report on Form 8-K filed on June 20, 2017.

Compensation Stock Compensation: Scope of Modification Accounting

In May 2017, the FASB issued updated guidance related to a change to the terms or conditions (modification) of a share-based payment award. The updated guidance provides that an entity should account for the effects of a modification unless the fair value and vesting conditions of the modified award and the classification of the modified award (equity or liability instrument) are the same as the original award immediately before the modification.

The updated guidance is effective for the quarter ending March 31, 2018. The update is to be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted in any interim periods for which financial statements have not yet been made available for issuance.

The Company adopted the updated guidance effective April 1, 2017. The adoption did not have an effect on the Company s results of operations, financial position or liquidity.

Accounting Standards Not Yet Adopted

For information regarding accounting standards that the Company has not yet adopted, see the Other Accounting Standards Not Yet Adopted section of note 1 of notes to the consolidated financial statements in the Company s 2016 Annual Report as updated by the Company s Current Report on Form 8-K filed on June 20, 2017.

Nature of Operations

Effective April 1, 2017, and as reported in the Company s Form 10-Q for the quarter ended June 30, 2017, the Company s results are reported in the following three business segments Business Insurance, Bond & Specialty Insurance and Personal Insurance, reflecting a change in the manner in which the Company s businesses were being managed as of that date, as well as the aggregation of products and services based on the type of customer, how the business is marketed and the manner in which risks are underwritten. While the segmentation of the Company s domestic businesses was unchanged, the Company s international businesses, which were previously managed and reported in total within the Business and International Insurance segment, were disaggregated by product type among the three newly aligned reportable business segments. All prior periods presented have been reclassified to conform to this presentation. In connection with these changes, the Company revised the names and descriptions of certain businesses comprising the Company s segments and has reflected other related changes.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The reportable business segments are as follows:

Business Insurance

Business Insurance offers a broad array of property and casualty insurance and insurance related services to its customers, primarily in the United States, as well as in Canada, the United Kingdom, the Republic of Ireland, Brazil and throughout other parts of the world as a corporate member of Lloyd s.

Business Insurance is comprised of Select Accounts, Middle Market, National Accounts, National Property and Other, and International. Business Insurance also includes Simply Business, as well as Business Insurance Other, which comprises the Special Liability Group (which manages the Company s asbestos and environmental liabilities) and the assumed reinsurance and certain other runoff operations.

Bond & Specialty Insurance

Bond & Specialty Insurance provides surety, fidelity, management liability, professional liability, and other property and casualty coverages and related risk management services to its customers in the United States and certain specialty insurance products in Canada, the United Kingdom, the Republic of Ireland and Brazil, utilizing various degrees of financially-based underwriting approaches.

Personal Insurance

Personal Insurance writes a broad range of property and casualty insurance covering individuals personal risks, primarily in the United States, as well as in Canada. The primary products of automobile and homeowners insurance are complemented by a broad suite of related coverages.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION

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

(for the three months ended September 30, in millions)	Business Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2017				
Premiums	**$ 3,576**	**$ 591**	**$ 2,356**	**$ 6,523**
Net investment income	**437**	**57**	**94**	**588**
Fee income	**108**		**5**	**113**
Other revenues	**19**	**5**	**14**	**38**
Total segment revenues (1)	**$ 4,140**	**$ 653**	**$ 2,469**	**$ 7,262**
Segment income (1)	**$ 105**	**$ 136**	**$ 77**	**$ 318**
2016				
Premiums	$ 3,497	$ 573	$ 2,139	$ 6,209
Net investment income	431	59	92	582
Fee income	111		5	116
Other revenues	7	5	16	28
Total segment revenues (1)	$ 4,046	$ 637	$ 2,252	$ 6,935
Segment income (1)	$ 433	$ 165	$ 163	$ 761

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

(for the nine months ended September 30, in millions)	Business Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2017				
Premiums	**$ 10,509**	**$ 1,721**	**$ 6,827**	**$ 19,057**
Net investment income	**1,337**	**174**	**285**	**1,796**
Fee income	**329**		**13**	**342**

Other revenues		**43**		**16**		**45**		**104**
Total segment revenues (1)	**$**	**12,218**	**$**	**1,911**	**$**	**7,170**	**$**	**21,299**
Segment income (1)	**$**	**976**	**$**	**444**	**$**	**178**	**$**	**1,598**
2016								
Premiums	$	10,350	$	1,684	$	6,223	$	18,257
Net investment income		1,234		177		264		1,675
Fee income		340				12		352
Other revenues		45		14		47		106
Total segment revenues (1)	$	11,969	$	1,875	$	6,546	$	20,390
Segment income (1)	$	1,281	$	540	$	410	$	2,231

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenue reconciliation				
Earned premiums				
Business Insurance:				
Domestic:				
Workers compensation	**$ 998**	$ 1,003	**$ 2,973**	$ 2,971
Commercial automobile	**544**	503	**1,571**	1,497
Commercial property	**448**	441	**1,326**	1,320
General liability	**523**	504	**1,512**	1,471
Commercial multi-peril	**806**	788	**2,377**	2,356
Other	**7**	9	**21**	23
Total Domestic	**3,326**	3,248	**9,780**	9,638
International	**250**	249	**729**	712
Total Business Insurance	**3,576**	3,497	**10,509**	10,350
Bond & Specialty Insurance:				
Domestic:				
Fidelity and surety	**249**	245	**728**	714
General liability	**243**	239	**717**	708
Other	**48**	45	**139**	133
Total Domestic	**540**	529	**1,584**	1,555
International	**51**	44	**137**	129
Total Bond & Specialty Insurance	**591**	573	**1,721**	1,684
Personal Insurance:				
Domestic:				
Automobile	**1,192**	1,026	**3,431**	2,936
Homeowners and Other	**999**	962	**2,931**	2,844
Total Domestic	**2,191**	1,988	**6,362**	5,780
International	**165**	151	**465**	443
Total Personal Insurance	**2,356**	2,139	**6,827**	6,223

Total earned premiums		**6,523**		6,209		**19,057**		18,257
Net investment income		**588**		582		**1,796**		1,675
Fee income		**113**		116		**342**		352
Other revenues		**38**		28		**104**		106
Total segment revenues		**7,262**		6,935		**21,299**		20,390
Other revenues		**2**		3		**6**		9
Net realized investment gains		**61**		23		**146**		33
Total revenues	**$**	**7,325**	$	6,961	**$**	**21,451**	$	20,432
Income reconciliation, net of tax								
Total segment income	**$**	**318**	$	761	**$**	**1,598**	$	2,231
Interest Expense and Other (1)		**(65)**		(60)		**(188)**		(183)
Core income		**253**		701		**1,410**		2,048
Net realized investment gains		**40**		15		**95**		23
Net income	**$**	**293**	$	716	**$**	**1,505**	$	2,071

(1) The primary component of Interest Expense and Other was after-tax interest expense of $61 million and $57 million in the three months ended September 30, 2017 and 2016, respectively, and $179 million and $177 million in the nine months ended September 30, 2017 and 2016, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)		September 30, 2017		December 31, 2016
Asset reconciliation				
Business Insurance	$	**78,985**	$	75,730
Bond & Specialty Insurance		**9,005**		8,726
Personal Insurance		**15,962**		15,426
Total segment assets		**103,952**		99,882
Other assets (1)		**359**		363
Total consolidated assets	$	**104,311**	$	100,245

(1) The primary components of other assets at September 30, 2017 and December 31, 2016 were other intangible assets and deferred taxes.

3. INVESTMENTS

Fixed Maturities

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

(at September 30, 2017, 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	$	**2,064**	$	**9**	$	**5**	$	**2,068**
Obligations of states, municipalities and political subdivisions:								
Local general obligation		**13,798**		**410**		**67**		**14,141**
Revenue		**11,341**		**324**		**51**		**11,614**
State general obligation		**1,555**		**45**		**9**		**1,591**

Pre-refunded		**3,666**		**163**				**3,829**
Total obligations of states, municipalities and political subdivisions		**30,360**		**942**		**127**		**31,175**
Debt securities issued by foreign governments		**1,559**		**17**		**11**		**1,565**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		**2,082**		**97**		**6**		**2,173**
All other corporate bonds		**24,572**		**587**		**79**		**25,080**
Redeemable preferred stock		**90**		**6**				**96**
Total	**$**	**60,727**	**$**	**1,658**	**$**	**228**	**$**	**62,157**

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

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

Pre-refunded bonds of $3.83 billion and $5.16 billion at September 30, 2017 and December 31, 2016, respectively, were bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities and obligations of U.S. government and government agencies and authorities. These trusts were created to fund the payment of principal and interest due under the bonds.

Proceeds from sales of fixed maturities classified as available for sale were $860 million and $865 million during the nine months ended September 30, 2017 and 2016, respectively. Gross gains of $28 million and $60 million and gross losses of $6 million and $10 million were realized on those sales during the nine months ended September 30, 2017 and 2016, respectively.

Equity Securities

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

(at September 30, 2017, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Public common stock	**$ 392**	**$ 80**	**$ 2**	**$ 470**
Non-redeemable preferred stock	**117**	**20**	**6**	**131**
Total	**$ 509**	**$ 100**	**$ 8**	**$ 601**

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

Proceeds from sales of equity securities classified as available for sale were $340 million and $71 million during the nine months ended September 30, 2017 and 2016, respectively. Gross gains of $146 million and $12 million and gross losses of $1 million and $3 million were realized on those sales during the nine months ended September 30, 2017 and 2016, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at September 30, 2017 and December 31, 2016, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in the tables are estimates that are prepared using the process described in note 4 herein and in note 4 of notes to the consolidated financial statements in the Company s 2016 Annual Report as updated by the Company s Current Report on Form 8-K filed on June 20, 2017. The Company also relies upon estimates of several factors in its review and evaluation of individual investments, using the process described in note 1 of notes to the consolidated financial statements in the Company s 2016 Annual Report as updated by the Company s Current Report on Form 8-K filed on June 20, 2017, in determining whether such investments are other-than-temporarily impaired.

(at September 30, 2017, in millions)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized Losses	12 months or longer Fair Value	12 months or longer Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 1,348	$ 4	$ 72	$ 1	$ 1,420	$ 5
Obligations of states, municipalities and political subdivisions	4,131	58	1,598	69	5,729	127
Debt securities issued by foreign governments	538	11			538	11
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	729	5	81	1	810	6
All other corporate bonds	4,896	57	679	22	5,575	79
Total fixed maturities	11,642	135	2,430	93	14,072	228
Equity securities						
Public common stock	39	1	6	1	45	2
Non-redeemable preferred stock			60	6	60	6
Total equity securities	39	1	66	7	105	8
Total	$ 11,681	$ 136	$ 2,496	$ 100	$ 14,177	$ 236

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

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

Unrealized losses for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at September 30, 2017 totaled $1 million, representing less than 1% of the combined fixed maturity and equity security portfolios on a pre-tax basis and less than 1% of shareholders equity on an after-tax basis.

Impairment Charges

Impairment charges included in net realized investment gains in the consolidated statement of income were $5 million and $4 million for the three months ended September 30, 2017 and 2016, respectively, and $12 million and $26 million for the nine months ended September 30, 2017 and 2016, respectively.

The cumulative amount of credit losses on fixed maturities held at September 30, 2017 and 2016, that were recognized in the consolidated statement of income from other-than-temporary impairments (OTTI) and for which a portion of the OTTI was recognized in other comprehensive income (loss) in the consolidated balance sheet was $82 million and $86 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 nine months ended September 30, 2017 and 2016 from that disclosed in note 3 of notes to the consolidated financial statements in the Company s 2016 Annual Report as updated by the Company s Current Report on Form 8-K filed on June 20, 2017.

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 September 30, 2017 and December 31, 2016, the Company had $400 million notional value of open U.S. Treasury futures contracts. Net realized investment losses related to U.S. Treasury futures contracts for the three months and nine months ended September 30, 2017 and 2016 were not significant.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS

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

- Level 1 **-** Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

- Level 2 **-** Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

- Level 3 **-** Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company s own assumptions about the inputs that market participants would use.

Valuation of Investments Reported at Fair Value in Financial Statements

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both September 30, 2017 and December 31, 2016.

While the vast majority of the Company s fixed maturities are included in Level 2, the Company holds a number of municipal bonds and corporate bonds which are not valued by the pricing service and estimates the fair value of these bonds using an internal pricing matrix with some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3. The fair value of the fixed maturities for which the Company used an internal pricing matrix was $123 million and $99 million at September 30, 2017 and December 31, 2016, respectively. Additionally, the Company holds a small amount of other fixed maturity investments that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker (primarily the market maker). The fair value of the fixed maturities for which the Company received a broker quote was $75 million and $85 million at September 30, 2017 and December 31, 2016, respectively. Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

For more information regarding the valuation of the Company s fixed maturities, equity securities and other investments, see note 4 of notes to the consolidated financial statements in the Company s 2016 Annual Report as updated by the Company s Current Report on Form 8-K filed on June 20, 2017.

Fair Value Hierarchy

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

(at September 30, 2017, 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	**$ 2,068**	**$ 2,068**	**$**	**$**
Obligations of states, municipalities and political subdivisions	**31,175**	**18**	**31,153**	**4**
Debt securities issued by foreign governments	**1,565**		**1,565**	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**2,173**		**2,143**	**30**
All other corporate bonds	**25,080**	**2**	**24,914**	**164**
Redeemable preferred stock	**96**	**3**	**93**	
Total fixed maturities	**62,157**	**2,091**	**59,868**	**198**
Equity securities				
Public common stock	**470**	**470**		
Non-redeemable preferred stock	**131**	**68**	**63**	
Total equity securities	**601**	**538**	**63**	
Other investments	**56**	**18**		**38**
Total	**$ 62,814**	**$ 2,647**	**$ 59,931**	**$ 236**

(at December 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	$ 2,035	$ 2,035	$	$
Obligations of states, municipalities and political subdivisions	31,910		31,898	12
Debt securities issued by foreign governments	1,662		1,662	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,708		1,704	4
All other corporate bonds	23,107		22,939	168
Redeemable preferred stock	93	3	90	
Total fixed maturities	60,515	2,038	58,293	184

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

During the nine months ended September 30, 2017 and the year ended December 31, 2016, the Company s transfers between Level 1 and Level 2 were not significant.

There was no significant activity in Level 3 of the hierarchy during the nine months ended September 30, 2017 or the year ended December 31, 2016.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Financial Instruments Disclosed, But Not Carried, At Fair Value

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

(at September 30, 2017, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	**$ 5,859**	**$ 5,859**	**$ 1,830**	**$ 3,995**	**$ 34**
Financial liabilities:					
Debt	**$ 6,921**	**$ 8,042**	**$**	**$ 8,042**	**$**

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

The Company utilized a pricing service to estimate fair value for approximately 98% of short-term securities at both September 30, 2017 and December 31, 2016. For a description of the process and inputs used by the pricing service to estimate fair value, see the Fixed Maturities section in note 4 of notes to the consolidated financial statements in the Company s 2016 Annual Report as updated by the Company s Current Report on Form 8-K filed on June 20, 2017.

The Company utilized a pricing service to estimate fair value for 100% of its debt at September 30, 2017 and December 31, 2016.

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the nine months ended September 30, 2017 or year ended December 31, 2016.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company s goodwill by segment. 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)	September 30, 2017	December 31, 2016
Business Insurance (1)	**$ 2,579**	$ 2,227
Bond & Specialty Insurance	**550**	549
Personal Insurance	**791**	778
Other	**26**	26
Total	**$ 3,946**	$ 3,580

(1) At September 30, 2017, goodwill related to the acquisition of Simply Business was $348 million. The total amount of goodwill expected to be deductible for tax purposes related to Simply Business is $466 million, which includes certain acquisition costs and intangible assets.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

Other Intangible Assets

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

(at September 30, 2017, in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Subject to amortization (1)	**$ 285**	**$ 167**	**$ 118**
Not subject to amortization	**227**		**227**
Total	**$ 512**	**$ 167**	**$ 345**

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

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

Amortization expense of intangible assets was $4 million and $3 million for the three months ended September 30, 2017 and 2016, respectively, and $9 million and $8 million for the nine months ended September 30, 2017 and 2016, respectively. Intangible asset amortization expense is estimated to be $4 million for the remainder of 2017, $15 million in 2018, $14 million in 2019, $13 million in 2020 and $12 million in 2021.

6. INSURANCE CLAIM RESERVES

Claims and claim adjustment expense reserves were as follows:

(in millions)		September 30, 2017		December 31, 2016
Property-casualty	**$**	**49,733**	$	47,929
Accident and health		**17**		20
Total	**$**	**49,750**	$	47,949

The following table presents a reconciliation of beginning and ending property casualty reserve balances for claims and claim adjustment expenses for the nine months ended September 30, 2017 and 2016:

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. INSURANCE CLAIM RESERVES, Continued

(for the nine months ended September 30, in millions)	2017	2016
Claims and claim adjustment expense reserves at beginning of year	$ 47,929	$ 48,272
Less reinsurance recoverables on unpaid losses	7,981	8,449
Net reserves at beginning of year	39,948	39,823
Estimated claims and claim adjustment expenses for claims arising in the current year	13,261	11,708
Estimated decrease in claims and claim adjustment expenses for claims arising in prior years	(197)	(430)
Total increases	13,064	11,278
Claims and claim adjustment expense payments for claims arising in:		
Current year	4,799	4,334
Prior years	6,831	6,778
Total payments	11,630	11,112
Unrealized foreign exchange loss	215	12
Net reserves at end of period	41,597	40,001
Plus reinsurance recoverables on unpaid losses	8,136	8,146
Claims and claim adjustment expense reserves at end of period	$ 49,733	$ 48,147

Gross claims and claim adjustment expense reserves at September 30, 2017 increased by $1.80 billion from December 31, 2016, primarily reflecting the impacts of (i) catastrophe losses in the third quarter of 2017 and (ii) higher volumes of insured exposures and loss cost trends for the current accident year, partially offset by the impacts of (iii) payments related to operations in runoff and (iv) net favorable prior year reserve development.

Reinsurance recoverables on unpaid losses at September 30, 2017 increased by $155 million from December 31, 2016, primarily reflecting the impacts of catastrophe losses and the asbestos reserve increase in the third quarter of 2017, partially offset by cash collections in the first nine months of 2017, including the settlement of certain disputes as discussed in more detail in note 13.

Prior Year Reserve Development

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

For the nine months ended September 30, 2017 and 2016, estimated claims and claim adjustment expenses incurred included $197 million and $430 million, respectively, of net favorable development for claims arising in prior years, including $299 million and $507 million, respectively, of net favorable prior year reserve development impacting the Company s results of operations and $38 million of accretion of discount in each period.

Business Insurance. Net favorable prior year reserve development in the third quarter of 2017 totaled $9 million, primarily driven by better than expected loss experience in the segment s domestic operations in (i) the workers compensation product line for multiple accident years and (ii) the general liability product line (excluding the increase to asbestos reserves) for both primary and excess coverages for accident years 2007 and prior as well as accident year 2016, largely offset by (iii) a $225 million increase to asbestos reserves and (iv) the impact of higher than expected loss experience in the commercial automobile product line for accident years 2013 through 2016. Net favorable prior year reserve development in the third quarter of 2016 totaled $4 million, primarily driven by better than expected loss experience in the segment s domestic operations in (i) the general liability product line (excluding the increase to asbestos reserves) for both primary and excess coverages for accident years 2006 and prior as well as accident years 2014 and 2015, (ii) the workers compensation product line for accident years 2006 and prior as well as accident year 2015 and (iii) the commercial auto product line for accident years 2011 and prior, largely offset by (iv) a $225 million increase to asbestos reserves.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. INSURANCE CLAIM RESERVES, Continued

Net favorable prior year reserve development in the first nine months of 2017 totaled $195 million, primarily driven by net favorable prior year reserve development in the segment s domestic operations due to better than expected loss experience in (i) the workers compensation product line for multiple accident years, (ii) the general liability product line (excluding an increase to asbestos and environmental reserves) for both primary and excess coverages for multiple accident years and (iii) the commercial multi-peril product line for liability coverages for multiple accident years, partially offset by (iv) a $225 million increase to asbestos reserves, (v) a $65 million increase to environmental reserves and (vi) the impact of higher than expected loss experience in the commercial automobile product line for accident years 2013 through 2016. The net favorable prior year reserve development in the segment s domestic operations was partially offset by net unfavorable prior year reserve development in the segment s international operations in Europe due to the UK Ministry of Justice s Ogden discount rate adjustment applied to lump sum bodily injury payouts. Net favorable prior year reserve development in the first nine months of 2016 totaled $203 million, primarily driven by net favorable prior year reserve development in the segment s domestic operations due to better than expected loss experience in (i) the workers compensation product line for accident years 2006 and prior as well as accident year 2015, (ii) the general liability product line (excluding an increase to asbestos and environmental reserves) for both primary and excess coverages for multiple accident years and (iii) the commercial automobile product line for accident years 2011 and prior, partially offset by (iv) a $225 million increase to asbestos reserves and (v) an $82 million increase to environmental reserves, as well as net favorable prior year reserve development in the segment s international operations in Europe and Canada.

Bond & Specialty Insurance. Net favorable prior year reserve development in the third quarter of 2017 totaled $6 million. Net favorable prior year reserve development in the third quarter of 2016 totaled $46 million, primarily driven by better than expected loss experience in the segment s domestic operations in the fidelity and surety product line for accident years 2009 through 2015. Net favorable prior year reserve development in first nine months of 2017 totaled $98 million, primarily driven by better than expected loss experience in the segment s domestic operations in the general liability product line for accident years 2012, 2014 and 2015. Net favorable prior year reserve development in the first nine months of 2016 totaled $271 million, primarily driven by better than expected loss experience in the segment s domestic operations in (i) the fidelity and surety product line for accident years 2009 through 2015 and (ii) the general liability product line for accident years 2007 through 2011.

Personal Insurance. There was no net prior year reserve development in the third quarter of 2017. Net unfavorable prior year reserve development in the third quarter of 2016 totaled $11 million, primarily driven by higher than expected loss experience in the segment s domestic operations in the Homeowners and Other product line for liability coverages for accident years 2013 and 2014. Net favorable prior year reserve development in the first nine months of 2017 totaled $6 million. Net favorable prior year reserve development in the first nine months of 2016 totaled $33 million, primarily driven by better than expected loss experience in the segment s international operations in Canada.

Subsequent Event

The Company expects to incur significant catastrophe losses in the fourth quarter of 2017 resulting from wildfires that began in early October in California. The fires are ongoing and efforts to contain the fires are continuing; the Company does not currently have an estimate of its ultimate losses related to the fires.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in the Company s accumulated other comprehensive income (AOCI) for the nine months ended September 30, 2017.

(in millions, net of taxes)	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, 2016	**$ 528**	**$ 202**	**$ (703)**	**$ (782)**	**$ (755)**
Other comprehensive income (OCI) before reclassifications	**377**	**1**	**(23)**	**177**	**532**
Amounts reclassified from AOCI	**(103)**	**1**	**40**		**(62)**
Net OCI, current period	**274**	**2**	**17**	**177**	**470**
Balance, September 30, 2017	**$ 802**	**$ 204**	**$ (686)**	**$ (605)**	**$ (285)**

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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Changes in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	**$ (42)**	$ (455)	**$ 429**	$ 1,138
Income tax expense (benefit)	**(12)**	(159)	**155**	393

Net of taxes	**(30)**	(296)	**274**	745
Having credit losses recognized in the consolidated statement of income	**2**	6	**4**	23
Income tax expense	**1**	2	**2**	8
Net of taxes	**1**	4	**2**	15
Net changes in benefit plan assets and obligations	**(9)**	16	**25**	50
Income tax expense (benefit)	**(3)**	6	**8**	17
Net of taxes	**(6)**	10	**17**	33
Net changes in unrealized foreign currency translation	**113**	(31)	**202**	37
Income tax expense (benefit)	**19**	(8)	**25**	13
Net of taxes	**94**	(23)	**177**	24
Total other comprehensive income (loss)	**64**	(464)	**660**	1,248
Total income tax expense (benefit)	**5**	(159)	**190**	431
Total other comprehensive income (loss), net of taxes	**$ 59**	$ (305)	**$ 470**	$ 817

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

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

(in millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Reclassification adjustments related to unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income (1)	**$ (64)**	$ (19)	**$ (158)**	$ (54)
Income tax expense (2)	**(22)**	(7)	**(55)**	(19)
Net of taxes	**(42)**	(12)	**(103)**	(35)
Having credit losses recognized in the consolidated statement of income (1)	**1**		**1**	12
Income tax benefit (2)				4
Net of taxes	**1**		**1**	8
Reclassification adjustment related to benefit plan assets and obligations:				
Claims and claim adjustment expenses (3)	**11**	6	**25**	18
General and administrative expenses (3)	**16**	9	**37**	28
Total	**27**	15	**62**	46
Income tax benefit (2)	**10**	5	**22**	16
Net of taxes	**17**	10	**40**	30
Reclassification adjustment related to foreign currency translation (1)				
Income tax benefit (2)				
Net of taxes				
Total reclassifications	**(36)**	(4)	**(95)**	4
Total income tax (expense) benefit	**(12)**	(2)	**(33)**	1

Total reclassifications, net of taxes	**$ (24)**	$ (2)	**$ (62)**	$ 3

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

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

8. DEBT

Debt Issuance. On May 22, 2017, the Company issued $700 million aggregate principal amount of 4.00% senior notes that will mature on May 30, 2047. The net proceeds of the issuance, after the deduction of the underwriting discount and expenses payable by the Company, totaled approximately $689 million. Interest on the senior notes is payable semi-annually in arrears on May 30 and November 30, commencing on November 30, 2017. Prior to November 30, 2046, 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 November 30, 2046 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 15 basis points. On or after November 30, 2046, the senior notes may be redeemed, in whole or in part, at the Company s option, at any time or from time to time, at a redemption price equal to 100% of the principal amount of any senior notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

Debt Redemption. On June 2, 2017, the Company redeemed the remaining $107 million aggregate principal amount of its 6.25% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 at a price per debenture of 100% of the principal amount thereof, plus accrued and unpaid interest to the redemption date.

Commercial Paper. The Company had $0 and $100 million of commercial paper outstanding at September 30, 2017 and December 31, 2016, respectively.

9. COMMON SHARE REPURCHASES

During the three months and nine months ended September 30, 2017, the Company repurchased 2.6 million and 8.3 million shares, respectively, under its share repurchase authorization, for a total cost of $328 million and $1.03 billion, respectively. The average cost per share repurchased was $128.11 and $124.12, respectively. In addition, the Company acquired 964 shares and 0.5 million shares for a total cost of $0.1 million and $61 million during the three months and nine months ended September 30, 2017, respectively, that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock unit awards and performance share awards, and shares used by employees to cover the price of certain stock options that were exercised. In April 2017, the Board of Directors approved a share repurchase authorization that added an additional $5.0 billion of repurchase capacity. At September 30, 2017, the Company had $4.91 billion of capacity remaining under its share repurchase authorization.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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 September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Basic and Diluted				
Net income, as reported	**$ 293**	$ 716	**$ 1,505**	$ 2,071
Participating share-based awards allocated income	**(2)**	(6)	**(11)**	(16)
Net income available to common shareholders basic and diluted	**$ 291**	$ 710	**$ 1,494**	$ 2,055
Common Shares				
Basic				
Weighted average shares outstanding	**274.1**	286.0	**277.1**	290.0
Diluted				
Weighted average shares outstanding	**274.1**	286.0	**277.1**	290.0
Weighted average effects of dilutive securities stock options and performance shares	**2.5**	3.8	**2.5**	3.6
Total	**276.6**	289.8	**279.6**	293.6
Net Income per Common Share				
Basic	**$ 1.06**	$ 2.48	**$ 5.39**	$ 7.09
Diluted	**$ 1.05**	$ 2.45	**$ 5.34**	$ 7.00

11. SHARE-BASED INCENTIVE COMPENSATION

The following information relates to fully vested stock option awards at September 30, 2017:

Stock Options	Number		Weighted Average Exercise Price	Weighted Average Contractual Life Remaining		Aggregate Intrinsic Value ($ in millions)
Vested at end of period (1)	**5,714,377**	**$**	**88.66**	**6.2 years**	**$**	**194**
Exercisable at end of period	**3,060,575**	**$**	**70.15**	**4.3 years**	**$**	**160**

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

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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 $31 million and $42 million for the three months ended September 30, 2017 and 2016, respectively, and $104 million and $124 million for the nine months ended September 30, 2017 and 2016, respectively. The related tax benefits recognized in the consolidated statement of income were $10 million and $14 million for the three months ended September 30, 2017 and 2016, respectively, and $34 million and $42 million for the nine months ended September 30, 2017 and 2016, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at September 30, 2017 was $172 million, which is expected to be recognized over a weighted-average period of 1.9 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 September 30, 2017 and 2016.

(for the three months ended September 30, in millions)	**Pension Plans 2017**	**Pension Plans 2016**	**Postretirement Benefit Plans 2017**	**Postretirement Benefit Plans 2016**
Net Periodic Benefit Cost:				
Service cost	**$ 30**	$ 29	**$**	$
Non-service cost:				
Interest cost on benefit obligation	**35**	30	**2**	2
Expected return on plan assets	**(60)**	(57)		
Settlement				
Amortization of unrecognized:				
Prior service benefit	**(1)**		**(1)**	(1)
Net actuarial loss	**29**	17		
Total non-service cost (benefit)	**3**	(10)	**1**	1
Net periodic benefit cost	**$ 33**	$ 19	**$ 1**	$ 1

The following table indicates the line items in which the respective service costs and non-service benefit costs are presented in the consolidated statement of income for the three months ended September 30, 2017 and 2016.

(for the three months ended September 30, in millions)	Pension Plans 2017	Pension Plans 2016	Postretirement Benefit Plans 2017	Postretirement Benefit Plans 2016
Service Cost:				
Claims and claim adjustment expenses	**$ 13**	$ 12	**$**	$
General and administrative expenses	**17**	17		
Total service cost	**30**	29		
Non-Service Cost:				
Claims and claim adjustment expenses	**1**	(4)	**1**	
General and administrative expenses	**2**	(6)		1
Total non-service cost (benefit)	**3**	(10)	**1**	1
Net periodic benefit cost	**$ 33**	$ 19	**$ 1**	$ 1

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS, Continued

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 nine months ended September 30, 2017 and 2016.

(for the nine months ended September 30, in millions)	Pension Plans 2017	Pension Plans 2016	Postretirement Benefit Plans 2017	Postretirement Benefit Plans 2016
Net Periodic Benefit Cost:				
Service cost	**$ 90**	$ 88	**$**	$
Non-service cost:				
Interest cost on benefit obligation	**96**	91	**5**	6
Expected return on plan assets	**(180)**	(172)		
Settlement		1		
Amortization of unrecognized:				
Prior service benefit	**(1)**		**(3)**	(3)
Net actuarial loss	**66**	50		
Total non-service cost (benefit)	**(19)**	(30)	**2**	3
Net periodic benefit cost	**$ 71**	$ 58	**$ 2**	$ 3

The following table indicates the line items in which the respective service costs and non-service benefit costs are presented in the consolidated statement of income for the nine months ended September 30, 2017 and 2016.

(for the nine months ended September 30, in millions)	Pension Plans 2017	Pension Plans 2016	Postretirement Benefit Plans 2017	Postretirement Benefit Plans 2016
Service Cost:				
Claims and claim adjustment expenses	**$ 37**	$ 36	**$**	$
General and administrative expenses	**53**	52		
Total service cost	**90**	88		
Non-Service Cost:				
Claims and claim adjustment expenses	**(8)**	(13)	**1**	1
General and administrative expenses	**(11)**	(17)	**1**	2

Total non-service cost (benefit)		**(19)**		(30)		**2**		3
Net periodic benefit cost	**$**	**71**	$	58	**$**	**2**	$	3

13. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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

Asbestos and Environmental Claims and Litigation

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

13. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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

Other Proceedings Not Arising Under Insurance Contracts or Reinsurance Agreements

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

Gain Contingency

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

On November 7, 2016, the Company agreed to a settlement with one of the three defendants then remaining in this dispute. The Company received payment under the settlement in the fourth quarter of 2016 and, as a result, recognized a $126 million pre-tax ($82 million after-tax) gain in the fourth quarter, which was included in other revenues in the consolidated statement of income for the year ended December 31, 2016. In connection with that settlement, the reinsurance recoverable balance related to this case was reduced from approximately $238 million to approximately $31 million in the Company s consolidated balance sheet. At March 31, 2017, the claim related to the remaining defendants totaled $71 million, comprising the $31 million of reinsurance recoverable plus interest amounting to $40 million as of that date. The interest was treated for accounting purposes as a gain contingency in accordance with FASB Topic 450, *Contingencies*, and accordingly was not recognized in the Company s consolidated financial statements.

On May 1, 2017, the Company agreed to a settlement of this dispute with the two remaining defendants, along with the settlement of several other disputes with these same parties. As a result of the settlement of all of these matters, the Company recorded an immaterial gain in other revenues in its consolidated statement of income for the three months ended June 30, 2017, and the reinsurance recoverable of $31 million in the Company s balance sheet was fully satisfied.

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 $1.55 billion and $1.60 billion at September 30, 2017 and December 31, 2016, 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 September 30, 2017, of which $2 million was recognized on the balance sheet at that date.

The maximum amount of the Company s obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was $45 million at September 30, 2017, approximately $23 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 September 30, 2017, all of which is indemnified by a third party. For more information regarding Company guarantees, see note 16 of notes to the consolidated financial statements in the Company s 2016 Annual Report as updated by the Company s Form 8-K filed on June 20, 2017.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

14. 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 September 30, 2017.

Prior to the merger of TPC and The St. Paul Companies, Inc. in 2004, TPC fully and unconditionally guaranteed the payment of all principal, premiums, if any, and interest on certain debt obligations of its wholly-owned subsidiary, 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.

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 2017

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 4,466	$ 2,057	$	$	$ 6,523
Net investment income	405	189	7	(13)	588
Fee income	113				113
Net realized investment gains (losses) (1)	6	56	(1)		61
Other revenues	21	21		(2)	40
Total revenues	5,011	2,323	6	(15)	7,325
Claims and expenses					
Claims and claim adjustment expenses	3,191	1,615			4,806
Amortization of deferred acquisition costs	716	343			1,059
General and administrative expenses	723	314	10	(2)	1,045
Interest expense	12		83		95
Total claims and expenses	4,642	2,272	93	(2)	7,005

Income (loss) before income taxes	369	51	(87)	(13)	320
Income tax expense (benefit)	74	17	(60)	(4)	27
Net income of subsidiaries			329	(329)	
Net income	$ 295	$ 34	$ 302	$ (338)	$ 293

(1) Total other-than-temporary impairment (OTTI) for the three months ended September 30, 2017, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)	**TPC**	**Other Subsidiaries**	**TRV**	**Eliminations**	**Consolidated**
Total OTTI losses	$ (2)	$ (3)	$	$	$ (5)
OTTI losses recognized in net realized investment gains (losses)	$ (2)	$ (3)	$	$	$ (5)
OTTI losses recognized in OCI	$	$	$	$	$

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 4,246	$ 1,963	$	$	$ 6,209
Net investment income	389	190	3		582
Fee income	116				116
Net realized investment gains (1)	10	12		1	23
Other revenues	24	11		(4)	31
Total revenues	4,785	2,176	3	(3)	6,961
Claims and expenses					
Claims and claim adjustment expenses	2,615	1,241			3,856
Amortization of deferred acquisition costs	683	329			1,012
General and administrative expenses	744	312	4	(3)	1,057
Interest expense	11		78		89
Total claims and expenses	4,053	1,882	82	(3)	6,014
Income (loss) before income taxes	732	294	(79)		947
Income tax expense (benefit)	194	81	(44)		231
Net income of subsidiaries			751	(751)	
Net income	$ 538	$ 213	$ 716	$ (751)	$ 716

(1) Total other-than-temporary impairment (OTTI) for the three months ended September 30, 2016, and the amounts comprising total OTTI that were recognized in net realized investment gains and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated

Total OTTI losses	$	(1)	$	(3)	$		$		$	(4)
OTTI losses recognized in net realized investment gains	$	(1)	$	(3)	$		$		$	(4)
OTTI gains (losses) recognized in OCI	$		$		$		$		$	

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2017

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 13,039	$ 6,018	$	$	$ 19,057
Net investment income	1,218	574	17	(13)	1,796
Fee income	342				342
Net realized investment gains (losses) (1)	(2)	90	58		146
Other revenues	75	42		(7)	110
Total revenues	14,672	6,724	75	(20)	21,451
Claims and expenses					
Claims and claim adjustment expenses	8,794	4,331			13,125
Amortization of deferred acquisition costs	2,077	1,017			3,094
General and administrative expenses	2,163	911	19	(7)	3,086
Interest expense	36		240		276
Total claims and expenses	13,070	6,259	259	(7)	19,581
Income (loss) before income taxes	1,602	465	(184)	(13)	1,870
Income tax expense (benefit)	361	125	(117)	(4)	365
Net income of subsidiaries			1,581	(1,581)	
Net income	$ 1,241	$ 340	$ 1,514	$ (1,590)	$ 1,505

(1) Total other-than-temporary impairment (OTTI) for the nine months ended September 30, 2017, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated

Total OTTI losses	$	(4)	$	(7)	$		$		$	(11)
OTTI losses recognized in net realized investment gains (losses)	$	(5)	$	(7)	$		$		$	(12)
OTTI gains recognized in OCI	$	1	$		$		$		$	1

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 12,492	$ 5,765	$	$	$ 18,257
Net investment income	1,142	524	9		1,675
Fee income	352				352
Net realized investment gains (losses) (1)	(7)	39		1	33
Other revenues	105	28		(18)	115
Total revenues	14,084	6,356	9	(17)	20,432
Claims and expenses					
Claims and claim adjustment expenses	7,710	3,620			11,330
Amortization of deferred acquisition costs	1,999	973			2,972
General and administrative expenses	2,191	923	9	(17)	3,106
Interest expense	35		238		273
Total claims and expenses	11,935	5,516	247	(17)	17,681
Income (loss) before income taxes	2,149	840	(238)		2,751
Income tax expense (benefit)	584	219	(123)		680
Net income of subsidiaries			2,186	(2,186)	
Net income	$ 1,565	$ 621	$ 2,071	$ (2,186)	$ 2,071

(1) Total other-than-temporary impairment (OTTI) for the nine months ended September 30, 2016, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	$ (18)	$ (18)	$	$	$ (36)

OTTI losses recognized in net realized investment gains (losses)	$	(13)	$	(13)	$		$		$	(26)
OTTI losses recognized in OCI	$	(5)	$	(5)	$		$		$	(10)

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended September 30, 2017

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 295	$ 34	$ 302	$ (338)	$ 293
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income		(47)	5		(42)
Having credit losses recognized in the consolidated statement of income	1	1			2
Net changes in benefit plan assets and obligations		(1)	(8)		(9)
Net changes in unrealized foreign currency translation	61	52			113
Other comprehensive income (loss) before income taxes and other comprehensive income of subsidiaries	62	5	(3)		64
Income tax expense (benefit)	12	(11)	4		5
Other comprehensive income (loss), net of taxes, before other comprehensive income of subsidiaries	50	16	(7)		59
Other comprehensive income of subsidiaries			66	(66)	
Other comprehensive income	50	16	59	(66)	59
Comprehensive income	$ 345	$ 50	$ 361	$ (404)	$ 352

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended September 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 538	$ 213	$ 716	$ (751)	$ 716
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(323)	(137)	5		(455)
Having credit losses recognized in the consolidated statement of income	4	2			6
Net changes in benefit plan assets and obligations	1		15		16
Net changes in unrealized foreign currency translation	(13)	(18)			(31)
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(331)	(153)	20		(464)
Income tax expense (benefit)	(120)	(48)	9		(159)
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(211)	(105)	11		(305)
Other comprehensive loss of subsidiaries			(316)	316	
Other comprehensive loss	(211)	(105)	(305)	316	(305)
Comprehensive income	$ 327	$ 108	$ 411	$ (435)	$ 411

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the nine months ended September 30, 2017

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 1,241	$ 340	$ 1,514	$ (1,590)	$ 1,505
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	389	82	(42)		429
Having credit losses recognized in the consolidated statement of income	3	1			4
Net changes in benefit plan assets and obligations		(2)	27		25
Net changes in unrealized foreign currency translation	100	102			202
Other comprehensive income (loss) before income taxes and other comprehensive income of subsidiaries	492	183	(15)		660
Income tax expense	151	38	1		190
Other comprehensive income (loss), net of taxes, before other comprehensive income of subsidiaries	341	145	(16)		470
Other comprehensive income of subsidiaries			486	(486)	
Other comprehensive income	341	145	470	(486)	470
Comprehensive income	$ 1,582	$ 485	$ 1,984	$ (2,076)	$ 1,975

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the nine months ended September 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 1,565	$ 621	$ 2,071	$ (2,186)	$ 2,071
Other comprehensive income:					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	732	397	9		1,138
Having credit losses recognized in the consolidated statement of income	12	11			23
Net changes in benefit plan assets and obligations	19	20	11		50
Net changes in unrealized foreign currency translation	106	(69)			37
Other comprehensive income before income taxes and other comprehensive income of subsidiaries	869	359	20		1,248
Income tax expense	277	144	10		431
Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries	592	215	10		817
Other comprehensive income of subsidiaries			807	(807)	
Other comprehensive income	592	215	817	(807)	817
Comprehensive income	$ 2,157	$ 836	$ 2,888	$ (2,993)	$ 2,888

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At September 30, 2017

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost $60,727)	$ 42,889	$ 19,218	$ 50	$	$ 62,157
Equity securities, available for sale, at fair value (cost $509)	173	255	173		601
Real estate investments	55	868			923
Short-term securities	2,936	1,024	1,899		5,859
Other investments	2,666	885	1		3,552
Total investments	48,719	22,250	2,123		73,092
Cash	165	214			379
Investment income accrued	392	170	6		568
Premiums receivable	4,938	2,329			7,267
Reinsurance recoverables	5,791	2,554			8,345
Ceded unearned premiums	612	76			688
Deferred acquisition costs	1,880	197			2,077
Deferred taxes	(76)	224	95		243
Contractholder receivables	3,813	944			4,757
Goodwill	2,593	1,362		(9)	3,946
Other intangible assets	202	143			345
Investment in subsidiaries			28,036	(28,036)	
Other assets	2,247	91	266		2,604
Total assets	$ 71,276	$ 30,554	$ 30,526	$ (28,045)	$ 104,311
Liabilities					
Claims and claim adjustment expense reserves	$ 33,358	$ 16,392	$	$	$ 49,750
Unearned premium reserves	9,225	4,022			13,247
Contractholder payables	3,813	944			4,757
Payables for reinsurance premiums	249	174			423
Debt	693		6,228		6,921
Other liabilities	3,946	967	562		5,475
Total liabilities	51,284	22,499	6,790		80,573
Shareholders equity					
Common stock (1,750.0 shares authorized; 273.8 shares issued and 273.7 shares		390	22,836	(390)	22,836

outstanding)										
Additional paid-in capital		11,634		6,970				(18,604)		
Retained earnings		7,989		683		33,108		(8,670)		33,110
Accumulated other comprehensive income (loss)		369		12		(285)		(381)		(285)
Treasury stock, at cost (498.3 shares)						(31,923)				(31,923)
Total shareholders equity		19,992		8,055		23,736		(28,045)		23,738
Total liabilities and shareholders equity	$	71,276	$	30,554	$	30,526	$	(28,045)	$	104,311

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At December 31, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost $59,650)	$ 42,014	$ 18,452	$ 49	$	$ 60,515
Equity securities, available for sale, at fair value (cost $504)	169	408	155		732
Real estate investments	56	872			928
Short-term securities	2,447	791	1,627		4,865
Other investments	2,569	878	1		3,448
Total investments	47,255	21,401	1,832		70,488
Cash	141	164	2		307
Investment income accrued	441	183	6		630
Premiums receivable	4,545	2,177			6,722
Reinsurance recoverables	5,664	2,623			8,287
Ceded unearned premiums	536	53			589
Deferred acquisition costs	1,741	182			1,923
Deferred taxes	216	224	25		465
Contractholder receivables	3,656	953			4,609
Goodwill	2,578	1,002			3,580
Other intangible assets	202	66			268
Investment in subsidiaries			27,137	(27,137)	
Other assets	1,973	370	34		2,377
Total assets	$ 68,948	$ 29,398	$ 29,036	$ (27,137)	$ 100,245
Liabilities					
Claims and claim adjustment expense reserves	$ 32,168	$ 15,781	$	$	$ 47,949
Unearned premium reserves	8,575	3,754			12,329
Contractholder payables	3,656	953			4,609
Payables for reinsurance premiums	156	117			273
Debt	693		5,744		6,437
Other liabilities	4,106	1,239	82		5,427
Total liabilities	49,354	21,844	5,826		77,024
Shareholders equity					
Common stock (1,750.0 shares authorized; 279.6 shares issued and outstanding)		390	22,614	(390)	22,614

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the nine months ended September 30, 2017

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,241	$ 340	$ 1,514	$ (1,590)	$ 1,505
Net adjustments to reconcile net income to net cash provided by operating activities	975	508	285	(49)	1,719
Net cash provided by operating activities	2,216	848	1,799	(1,639)	3,224
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	4,961	1,618	2		6,581
Proceeds from sales of investments:					
Fixed maturities	463	397			860
Equity securities	18	202	120		340
Real estate investments		23			23
Other investments	426	190		(13)	603
Purchases of investments:					
Fixed maturities	(5,906)	(2,493)	(4)		(8,403)
Equity securities	(5)	(65)	(123)		(193)
Real estate investments		(40)			(40)
Other investments	(305)	(87)			(392)
Net purchases of short-term securities	(488)	(230)	(272)		(990)
Securities transactions in course of settlement	18	103	1		122
Acquisition, net of cash acquired		25	(477)	13	(439)
Other	(192)	5			(187)
Net cash used in investing activities	(1,010)	(352)	(753)		(2,115)
Cash flows from financing activities					
Treasury stock acquired share repurchase authorization			(1,028)		(1,028)
Treasury stock acquired net employee share-based compensation			(61)		(61)
Dividends paid to shareholders			(589)		(589)
Payment of debt			(207)		(207)
Issuance of debt			689		689
			148		148

Issuance of common stock employee share options					
Dividends paid to parent company	(1,185)	(454)		1,639	
Net cash used in financing activities	(1,185)	(454)	(1,048)	1,639	(1,048)
Effect of exchange rate changes on cash	3	8			11
Net increase (decrease) in cash	24	50	(2)		72
Cash at beginning of year	141	164	2		307
Cash at end of period	$ 165	$ 214	$	$	$ 379
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 493	$ 174	$ (200)	$	$ 467
Interest paid	$ 40	$	$ 177	$	$ 217

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the nine months ended September 30, 2016

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,565	$ 621	$ 2,071	$ (2,186)	$ 2,071
Net adjustments to reconcile net income to net cash provided by operating activities	643	92	127	130	992
Net cash provided by operating activities	2,208	713	2,198	(2,056)	3,063
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	4,854	1,788	6		6,648
Proceeds from sales of investments:					
Fixed maturities	458	405	2		865
Equity securities	39	32			71
Real estate investments		69			69
Other investments	399	170			569
Purchases of investments:					
Fixed maturities	(6,016)	(2,978)	(10)		(9,004)
Equity securities	(5)	(29)	(2)		(36)
Real estate investments	(1)	(29)			(30)
Other investments	(328)	(94)			(422)
Net (purchases) sales of short-term securities	(339)	366	(162)		(135)
Securities transactions in course of settlement	422	86	3		511
Other	(236)	(4)			(240)
Net cash used in investing activities	(753)	(218)	(163)		(1,134)
Cash flows from financing activities					
Treasury stock acquired share repurchase authorization			(1,650)		(1,650)
Treasury stock acquired net employee share-based compensation			(71)		(71)
Dividends paid to shareholders			(569)		(569)
Payment of debt			(400)		(400)
Issuance of debt			491		491
Issuance of common stock employee share options			164		164

Dividends paid to parent company	(1,550)	(506)		2,056	
Net cash used in financing activities	(1,550)	(506)	(2,035)	2,056	(2,035)
Effect of exchange rate changes on cash	1	(6)			(5)
Net decrease in cash	(94)	(17)			(111)
Cash at beginning of year	225	153	2		380
Cash at end of period	$ 131	$ 136	$ 2	$	$ 269
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 536	$ 206	$ (94)	$	$ 648
Interest paid	$ 40	$	$ 183	$	$ 223

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

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

FINANCIAL HIGHLIGHTS

2017 Third Quarter Consolidated Results of Operations

- Net income of $293 million, or $1.06 per share basic and $1.05 per share diluted
- Net earned premiums of $6.52 billion
- Catastrophe losses of $700 million ($455 million after-tax)
- Net favorable prior year reserve development of $15 million ($10 million after-tax)
- Combined ratio of 103.2%
- Net investment income of $588 million ($457 million after-tax)
- Operating cash flows of $1.64 billion

2017 Third Quarter Consolidated Financial Condition

- Total investments of $73.09 billion; fixed maturities and short-term securities comprised 93% of total investments
- Total assets of $104.31 billion
- Total debt of $6.92 billion, resulting in a debt-to-total capital ratio of 22.6% (23.3% excluding net unrealized investment gains, net of tax)

- Repurchased 2.6 million common shares for total cost of $328 million and paid $200 million of dividends to shareholders
- Shareholders equity of $23.74 billion
- Net unrealized investment gains of $1.55 billion ($1.01 billion after-tax)
- Book value per common share of $86.73
- Holding company liquidity of $1.96 billion

Realignment of Reportable Business Segments

Effective April 1, 2017, and as reported in the Company s Form 10-Q for the quarter ended June 30, 2017, the Company s results are reported in the following three business segments Business Insurance, Bond & Specialty Insurance and Personal Insurance, reflecting a change in the manner in which the Company s businesses were being managed as of that date, as well as the aggregation of products and services based on the type of customer, how the business is marketed and the manner in which risks are underwritten. While the segmentation of the Company s domestic businesses was unchanged, the Company s international businesses, which were previously managed and reported in total within the Business and International Insurance segment, were disaggregated by product type among the three newly aligned reportable business segments. All prior periods presented have been reclassified to conform to this presentation.

In connection with these changes, the Company revised the names and descriptions of certain businesses comprising the Company s segments and has reflected other related changes. The following discussion of segment results is based on the realigned reportable business segment structure effective April 1, 2017.

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CONSOLIDATED OVERVIEW

Consolidated Results of Operations

(in millions, except ratio and per share amounts)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenues				
Premiums	**$ 6,523**	$ 6,209	**$ 19,057**	$ 18,257
Net investment income	**588**	582	**1,796**	1,675
Fee income	**113**	116	**342**	352
Net realized investment gains	**61**	23	**146**	33
Other revenues	**40**	31	**110**	115
Total revenues	**7,325**	6,961	**21,451**	20,432
Claims and expenses				
Claims and claim adjustment expenses	**4,806**	3,856	**13,125**	11,330
Amortization of deferred acquisition costs	**1,059**	1,012	**3,094**	2,972
General and administrative expenses	**1,045**	1,057	**3,086**	3,106
Interest expense	**95**	89	**276**	273
Total claims and expenses	**7,005**	6,014	**19,581**	17,681
Income before income taxes	**320**	947	**1,870**	2,751
Income tax expense	**27**	231	**365**	680
Net income	**$ 293**	$ 716	**$ 1,505**	$ 2,071
Net income per share				
Basic	**$ 1.06**	$ 2.48	**$ 5.39**	$ 7.09
Diluted	**$ 1.05**	$ 2.45	**$ 5.34**	$ 7.00
Combined ratio				
Loss and loss adjustment expense ratio	**72.8%**	61.2%	**68.0%**	61.2%
Underwriting expense ratio	**30.4**	31.7	**30.7**	31.6
Combined ratio	**103.2%**	92.9%	**98.7%**	92.8%

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

Overview

Diluted net income per share of $1.05 in the third quarter of 2017 decreased by 57% from diluted net income per share of $2.45 in the same period of 2016. Net income of $293 million in the third quarter of 2017 decreased by 59% from net income of $716 million in the same period of 2016. The lower rate of decrease in diluted net income per share reflected the impact of share repurchases in recent periods. The decrease in net income primarily reflected the pre-tax impacts of (i) significantly higher catastrophe losses, (ii) lower underwriting margins excluding catastrophe losses and prior year reserve development (underlying underwriting margins) and (iii) lower net favorable prior year reserve development, partially offset by (iv) higher net realized investment gains. Catastrophe losses in the third quarters of 2017 and 2016 were $700 million and $89 million, respectively. Net favorable prior year reserve development in the third quarters of 2017 and 2016 was $15 million and $39 million, respectively. The lower underlying underwriting margins primarily resulted from the impacts of (i) a high level of non-catastrophe fire-related losses and (ii) loss cost trends that modestly exceeded earned pricing, partially offset by (iii) increased business volumes. Partially offsetting this net pre-tax decrease in income was a related decrease in income tax expense.

Diluted net income per share of $5.34 in the first nine months of 2017 decreased by 24% from diluted net income per share of $7.00 in the same period of 2016. Net income of $1.51 billion in the first nine months of 2017 decreased by 27% from net

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income of $2.07 billion in the same period of 2016. The lower rate of decrease in diluted net income per share reflected the impact of share repurchases in recent periods. The decrease in net income primarily reflected the pre-tax impacts of (i) significantly higher catastrophe losses, (ii) lower net favorable prior year reserve development and (iii) lower underlying underwriting margins, partially offset by (iv) higher net investment income and (v) higher net realized investment gains. Catastrophe losses in the first nine months of 2017 and 2016 were $1.45 billion and $740 million, respectively. Net favorable prior year reserve development in the first nine months of 2017 and 2016 was $299 million and $507 million, respectively. The lower underlying underwriting margins primarily resulted from the impacts of (i) a high level of non-catastrophe fire-related losses, (ii) the timing of higher loss estimates in personal automobile bodily injury liability coverages that were consistent with the higher loss trends recognized in the latter part of 2016 and (iii) loss cost trends that modestly exceeded earned pricing, partially offset by (iv) increased business volumes. Partially offsetting this net pre-tax decrease in income was a related decrease in income tax expense. Income tax expense in the first nine months of 2017 was also reduced by $39 million as a result of the resolution of prior year tax matters in the first quarter of 2017.

The Company has insurance operations in Canada, the United Kingdom, the Republic of Ireland and throughout other parts of the world as a corporate member of Lloyd s, as well as in Brazil and Colombia, primarily through joint ventures. Because these operations are conducted in local currencies other than the U.S. dollar, the Company is subject to changes in foreign currency exchange rates. For the three months and nine months ended September 30, 2017 and 2016, changes in foreign currency exchange rates impacted 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 segment income for the periods reported.

Revenues

Earned Premiums

Earned premiums in the third quarter of 2017 were $6.52 billion, $314 million or 5% higher than in the same period of 2016. Earned premiums in the first nine months of 2017 were $19.06 billion, $800 million or 4% higher than in the same period of 2016. In Business Insurance, earned premiums in both the third quarter and first nine months of 2017 increased by 2% over the same periods of 2016. In Bond & Specialty Insurance, earned premiums in the third quarter and first nine months of 2017 increased by 3% and 2%, respectively, over the same periods of 2016. In Personal Insurance, earned premiums in both the third quarter and first nine months of 2017 increased by 10% over the same periods of 2016. Factors contributing to the changes in earned premiums in each segment are discussed in more detail in the segment discussions that follow.

Net Investment Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	**2017**	**2016**	**2017**	**2016**

Average investments (1)	**$**	**72,363**	$	70,110	**$**	**71,577**	$	70,082
Pre-tax net investment income		**588**		582		**1,796**		1,675
After-tax net investment income		**457**		472		**1,405**		1,353
Average pre-tax yield (2)		**3.2%**		3.3%		**3.3%**		3.2%
Average after-tax yield (2)		**2.5%**		2.7%		**2.6%**		2.6%

(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 third quarter of 2017 was $588 million, $6 million or 1% higher than in the same period of 2016. Net investment income in the first nine months of 2017 was $1.80 billion, $121 million or 7% higher than in the same period of 2016. Net investment income from fixed maturity investments in the third quarter and first nine months of 2017 was $469 million and $1.42 billion, respectively, $21 million and $73 million lower, respectively, than in the same periods of 2016. The decreases primarily resulted from lower long-term reinvestment rates available in the market, partially offset by the impact of a slightly higher average level of fixed maturity investments. Net investment income from short-term securities in the third quarter and first nine months of 2017 was $19 million and $43 million, respectively, $12 million and $23 million higher, respectively, than in the same periods of 2016. The increases primarily resulted from higher short-term interest rates and a higher average level of short-term investments. Net investment income generated by non-fixed maturity investments in the third quarter and first nine months of 2017 was $108 million and $363 million, respectively, $13 million and $171 million

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higher, respectively, than in the same periods of 2016, primarily due to higher returns from private equity limited partnerships.

Fee Income

The National Accounts market in Business Insurance is the primary source of the Company s fee-based business. The $3 million and $10 million decreases in fee income in the third quarter and first nine months of 2017, respectively, compared with the same periods of 2016 are discussed in the Business Insurance segment discussion that follows.

Net Realized Investment Gains

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

(in millions)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Net Realized Investment Gains				
Other-than-temporary impairment losses	**$ (5)**	$ (4)	**$ (12)**	$ (26)
Other net realized investment gains	**66**	27	**158**	59
Net realized investment gains	**$ 61**	$ 23	**$ 146**	$ 33

The increases in other net realized investment gains in the third quarter and first nine months of 2017 compared with the same periods of 2016 were primarily driven by net realized gains on the sale of equity securities.