Section 1: 10-Q (10-Q)

[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2019

or

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

For the transition period from _______ to _______

Commission file number: 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**41-0518860**
(State or other jurisdiction of 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, without par value	TRV	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

Yes ☐ No ☒

The number of shares of the Registrant’s Common Stock, without par value, outstanding at July 19, 2019 was 260,385,722.

The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended June 30, 2019

TABLE OF CONTENTS

Table of Contents

PART 1 — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenues				
Premiums	**$ 6,988**	$ 6,695	**$ 13,843**	$ 13,232
Net investment income	**648**	595	**1,230**	1,198
Fee income	**116**	112	**225**	215
Net realized investment gains (1)	**25**	36	**78**	25
Other revenues	**57**	39	**129**	93
Total revenues	**7,834**	7,477	**15,505**	14,763
Claims and expenses				
Claims and claim adjustment expenses	**4,821**	4,562	**9,263**	8,858
Amortization of deferred acquisition costs	**1,134**	1,081	**2,251**	2,142
General and administrative expenses	**1,125**	1,113	**2,182**	2,175
Interest expense	**89**	90	**177**	179
Total claims and expenses	**7,169**	6,846	**13,873**	13,354
Income before income taxes	**665**	631	**1,632**	1,409
Income tax expense	**108**	107	**279**	216
Net income	**$ 557**	$ 524	**$ 1,353**	$ 1,193
Net income per share				
Basic	**$ 2.11**	$ 1.93	**$ 5.12**	$ 4.39
Diluted	**$ 2.10**	$ 1.92	**$ 5.08**	$ 4.35
Weighted average number of common shares outstanding				
Basic	**261.3**	268.7	**262.1**	269.8
Diluted	**263.7**	271.1	**264.2**	272.5
Cash dividends declared per common share	**$ 0.82**	$ 0.77	**$ 1.59**	$ 1.49

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(1) Total other-than-temporary impairment (OTTI) gains (losses) were $(1) million for each of the three months ended June 30, 2019 and 2018, and $(2) million and $(1) million for the six months ended June 30, 2019 and June 30, 2018, respectively. Of total OTTI, credit losses of $(1) million for each of the three months ended June 30, 2019 and 2018, and $(2) million and $(1) million for the six months ended June 30, 2019 and June 30, 2018, 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 and six months ended June 30, 2019 and 2018 were recognized in other comprehensive income (loss) as part of changes in net unrealized gains (losses) on investment securities having credit losses recognized in the consolidated statement of income.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	**$ 557**	$ 524	**$ 1,353**	$ 1,193
Other comprehensive income (loss)				
Changes in net unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income	**1,108**	(298)	**2,524**	(1,501)
Having credit losses recognized in the consolidated statement of income	**(4)**	(12)	**1**	(14)
Net changes in benefit plan assets and obligations	**14**	21	**26**	43
Net changes in unrealized foreign currency translation	**5**	(158)	**55**	(152)
Other comprehensive income (loss) before income taxes	**1,123**	(447)	**2,606**	(1,624)
Income tax expense (benefit)	**235**	(81)	**541**	(325)
Other comprehensive income (loss), net of taxes	**888**	(366)	**2,065**	(1,299)
Comprehensive income (loss)	**$ 1,445**	$ 158	**$ 3,418**	$ (106)

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

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

	June 30, 2019	December 31, 2018
	(Unaudited)	
Assets		
Fixed maturities, available for sale, at fair value (amortized cost $64,784 and $63,601)	**$ 67,172**	$ 63,464
Equity securities, at fair value (cost $373 and $382)	**406**	368
Real estate investments	**965**	904
Short-term securities	**3,487**	3,985
Other investments	**3,466**	3,557
Total investments	**75,496**	72,278
Cash	**416**	373
Investment income accrued	**615**	624
Premiums receivable	**8,297**	7,506
Reinsurance recoverables	**8,234**	8,370
Ceded unearned premiums	**864**	578
Deferred acquisition costs	**2,281**	2,120
Deferred taxes	**—**	445
Contractholder receivables	**4,776**	4,785
Goodwill	**3,943**	3,937
Other intangible assets	**335**	345
Other assets	**3,315**	2,872
Total assets	**$ 108,572**	$ 104,233
Liabilities		
Claims and claim adjustment expense reserves	**$ 51,073**	$ 50,668
Unearned premium reserves	**14,538**	13,555
Contractholder payables	**4,776**	4,785
Payables for reinsurance premiums	**591**	289
Deferred taxes	**87**	—
Debt	**6,558**	6,564
Other liabilities	**5,628**	5,478
Total liabilities	**83,251**	81,339
Shareholders' equity		
Common stock (1,750.0 shares authorized; 260.4 and 263.7 shares issued, 260.3 and 263.6 shares outstanding)	**23,372**	23,144
Retained earnings	**36,135**	35,204
Accumulated other comprehensive income (loss)	**206**	(1,859)
Treasury stock, at cost (516.7 and 510.9 shares)	**(34,392)**	(33,595)
Total shareholders' equity	**25,321**	22,894
Total liabilities and shareholders' equity	**$ 108,572**	$ 104,233

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Common stock				
Balance, beginning of period	**$ 23,243**	$ 22,995	**$ 23,144**	$ 22,886
Employee share-based compensation	**91**	12	**145**	77
Compensation amortization under share-based plans and other changes	**38**	33	**83**	77
Balance, end of period	**23,372**	23,040	**23,372**	23,040
Retained earnings				
Balance, beginning of period	**35,795**	33,981	**35,204**	33,462
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018	**—**	—	**—**	22
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018	**—**	—	**—**	24
Net income	**557**	524	**1,353**	1,193
Dividends	**(217)**	(209)	**(421)**	(406)
Other	**—**	—	**(1)**	1
Balance, end of period	**36,135**	34,296	**36,135**	34,296
Accumulated other comprehensive income (loss), net of tax				
Balance, beginning of period	**(682)**	(1,322)	**(1,859)**	(343)
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018	**—**	—	**—**	(22)
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018	**—**	—	**—**	(24)
Other comprehensive income (loss)	**888**	(366)	**2,065**	(1,299)
Balance, end of period	**206**	(1,688)	**206**	(1,688)
Treasury stock, at cost				
Balance, beginning of period	**(34,016)**	(32,675)	**(33,595)**	(32,274)
Treasury stock acquired — share repurchase authorization	**(375)**	(350)	**(750)**	(700)
Net shares acquired related to employee share-based compensation plans	**(1)**	—	**(47)**	(51)
Balance, end of period	**(34,392)**	(33,025)	**(34,392)**	(33,025)
Total shareholders' equity	**$ 25,321**	$ 22,623	**$ 25,321**	$ 22,623
Common shares outstanding				
Balance, beginning of period	**261.9**	270.2	**263.6**	271.4
Treasury stock acquired — share repurchase authorization	**(2.6)**	(2.7)	**(5.5)**	(5.2)
Net shares issued under employee share-based compensation plans	**1.0**	0.2	**2.2**	1.5
Balance, end of period	**260.3**	267.7	**260.3**	267.7

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

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

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities		
Net income	**$ 1,353**	$ 1,193
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	**(78)**	(25)
Depreciation and amortization	**401**	411
Deferred federal income tax expense (benefit)	**10**	(70)
Amortization of deferred acquisition costs	**2,251**	2,142
Equity in income from other investments	**(132)**	(169)
Premiums receivable	**(779)**	(660)
Reinsurance recoverables	**151**	29
Deferred acquisition costs	**(2,408)**	(2,284)
Claims and claim adjustment expense reserves	**329**	435
Unearned premium reserves	**958**	879
Other	**(264)**	(183)
Net cash provided by operating activities	**1,792**	1,698
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**3,038**	3,657
Proceeds from sales of investments:		
Fixed maturities	**1,495**	2,607
Equity securities	**71**	92
Other investments	**240**	189
Purchases of investments:		
Fixed maturities	**(5,708)**	(7,952)
Equity securities	**(41)**	(60)
Real estate investments	**(85)**	(44)
Other investments	**(262)**	(275)
Net sales of short-term securities	**497**	1,202
Securities transactions in course of settlement	**223**	279
Other	**(169)**	(152)
Net cash used in investing activities	**(701)**	(457)
Cash flows from financing activities		
Treasury stock acquired — share repurchase authorization	**(750)**	(700)
Treasury stock acquired — net employee share-based compensation	**(47)**	(51)
Dividends paid to shareholders	**(419)**	(404)
Payment of debt	**(500)**	(600)
Issuance of debt	**492**	491
Issuance of common stock — employee share options	**174**	98
Net cash used in financing activities	**(1,050)**	(1,166)
Effect of exchange rate changes on cash	**2**	(4)
Net increase in cash	**43**	71
Cash at beginning of year	**373**	344
Cash at end of period	**$ 416**	$ 415
Supplemental disclosure of cash flow information		
Income taxes paid	**$ 325**	$ 238
Interest paid	**$ 171**	$ 175

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, 2018 (the Company's 2018 Annual Report).

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

Adoption of Accounting Standards

Leases

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

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

Effective for the quarter ended March 31, 2019, the Company adopted the updated guidance regarding *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, and applied the guidance prospectively. The updated guidance requires an entity to determine the stage of a project that the implementation activity relates to and the nature of the associated costs in order to determine whether those costs should be expensed as incurred or capitalized. The updated guidance also requires the entity to amortize the capitalized implementation costs as an expense over the term of the hosting arrangement. The adoption of the updated guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

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

Accounting Standards Not Yet Adopted

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

Nature of Operations

The Company's results are reported in the following three business segments — Business Insurance, Bond & Specialty Insurance and Personal Insurance. These segments reflect the manner in which the Company's businesses are currently managed and represent an aggregation of products and services based on the type of customer, how the business is marketed and the manner in which risks are underwritten. For more information regarding the Company's nature of operations, see the "Nature of Operations" section of note 1 of notes to the consolidated financial statements in the Company's 2018 Annual Report.

2. SEGMENT INFORMATION

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

(For the three months ended June 30, in millions)	Business Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2019				
Premiums	**$ 3,783**	**$ 632**	**$ 2,573**	**$ 6,988**
Net investment income	**481**	**58**	**109**	**648**
Fee income	**111**	**—**	**5**	**116**
Other revenues	**30**	**6**	**21**	**57**
Total segment revenues [(1)]	**$ 4,405**	**$ 696**	**$ 2,708**	**$ 7,809**
Segment income [(1)]	**$ 351**	**$ 174**	**$ 88**	**$ 613**
2018				
Premiums	$ 3,641	$ 601	$ 2,453	$ 6,695
Net investment income	440	57	98	595
Fee income	107	—	5	112
Other revenues	20	5	14	39
Total segment revenues [(1)]	$ 4,208	$ 663	$ 2,570	$ 7,441
Segment income (loss) [(1)]	$ 385	$ 204	$ (17)	$ 572

(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).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(For the six months ended June 30, in millions)	Business Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2019				
Premiums	**$ 7,525**	**$ 1,238**	**$ 5,080**	**$ 13,843**
Net investment income	**908**	**114**	**208**	**1,230**
Fee income	**215**	**—**	**10**	**225**
Other revenues	**73**	**12**	**43**	**128**
Total segment revenues (1)	**$ 8,721**	**$ 1,364**	**$ 5,341**	**$ 15,426**
Segment income (1)	**$ 765**	**$ 312**	**$ 366**	**$ 1,443**
2018				
Premiums	$ 7,209	$ 1,183	$ 4,840	$ 13,232
Net investment income	886	115	197	1,198
Fee income	206	—	9	215
Other revenues	51	11	31	93
Total segment revenues (1)	$ 8,352	$ 1,309	$ 5,077	$ 14,738
Segment income (1)	$ 837	$ 377	$ 112	$ 1,326

(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).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenue reconciliation				
Earned premiums				
Business Insurance:				
Domestic:				
Workers' compensation	**$ 950**	$ 973	**$ 1,922**	$ 1,944
Commercial automobile	**647**	587	**1,275**	1,149
Commercial property	**473**	453	**933**	891
General liability	**585**	535	**1,152**	1,056
Commercial multi-peril	**856**	822	**1,696**	1,627
Other	**9**	6	**17**	13
Total Domestic	**3,520**	3,376	**6,995**	6,680
International	**263**	265	**530**	529
Total Business Insurance	**3,783**	3,641	**7,525**	7,209
Bond & Specialty Insurance:				
Domestic:				
Fidelity and surety	**258**	253	**504**	499
General liability	**266**	248	**523**	490
Other	**53**	49	**105**	96
Total Domestic	**577**	550	**1,132**	1,085
International	**55**	51	**106**	98
Total Bond & Specialty Insurance	**632**	601	**1,238**	1,183
Personal Insurance:				
Domestic:				
Automobile	**1,321**	1,261	**2,618**	2,486
Homeowners and Other	**1,078**	1,022	**2,117**	2,017
Total Domestic	**2,399**	2,283	**4,735**	4,503
International	**174**	170	**345**	337
Total Personal Insurance	**2,573**	2,453	**5,080**	4,840
Total earned premiums	**6,988**	6,695	**13,843**	13,232
Net investment income	**648**	595	**1,230**	1,198
Fee income	**116**	112	**225**	215
Other revenues	**57**	39	**128**	93
Total segment revenues	**7,809**	7,441	**15,426**	14,738
Other revenues	**—**	—	**1**	—
Net realized investment gains	**25**	36	**78**	25
Total revenues	**$ 7,834**	$ 7,477	**$ 15,505**	$ 14,763
Income reconciliation, net of tax				
Total segment income	**$ 613**	$ 572	**$ 1,443**	$ 1,326
Interest Expense and Other (1)	**(76)**	(78)	**(151)**	(154)
Core income	**537**	494	**1,292**	1,172
Net realized investment gains	**20**	30	**61**	21
Net income	**$ 557**	$ 524	**$ 1,353**	$ 1,193

(1) The primary component of Interest Expense and Other was after-tax interest expense of $70 million and $71 million for the three months ended June 30, 2019 and 2018, respectively, and $140 million and $141 million for the six months ended June 30, 2019 and 2018, respectively.

2. SEGMENT INFORMATION, Continued

(in millions)	June 30, 2019	December 31, 2018
Asset reconciliation		
Business Insurance	$ 82,762	$ 78,965
Bond & Specialty Insurance	8,445	8,693
Personal Insurance	16,602	15,943
Total assets by reportable segment	107,809	103,601
Other assets [(1)]	763	632
Total consolidated assets	$ 108,572	$ 104,233

(1) The primary components of other assets at both June 30, 2019 and December 31, 2018 were accrued over-funded benefit plan assets related to the Company's qualified domestic pension plan and other intangible assets.

3. INVESTMENTS

Fixed Maturities

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

(at June 30, 2019, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,000	$ 20	$ 2	$ 2,018
Obligations of states, municipalities and political subdivisions:				
Local general obligation	15,187	692	1	15,878
Revenue	9,701	499	—	10,200
State general obligation	1,273	53	—	1,326
Pre-refunded	2,251	75	—	2,326
Total obligations of states, municipalities and political subdivisions	28,412	1,319	1	29,730
Debt securities issued by foreign governments	1,112	14	1	1,125
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,839	90	4	2,925
All other corporate bonds	30,371	982	32	31,321
Redeemable preferred stock	50	3	—	53
Total	$ 64,784	$ 2,428	$ 40	$ 67,172

3. INVESTMENTS, Continued

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

Pre-refunded bonds of $2.33 billion and $2.85 billion at June 30, 2019 and December 31, 2018, respectively, were bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities and obligations of U.S. government and government agencies and authorities. These trusts were created to fund the payment of principal and interest due under the bonds.

Proceeds from sales of fixed maturities classified as available for sale were $1.50 billion and $2.61 billion during the six months ended June 30, 2019 and 2018, respectively. Gross gains of $35 million and $24 million and gross losses of $4 million and $11 million were realized on those sales during the six months ended June 30, 2019 and 2018, respectively.

Equity Securities

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

(at June 30, 2019, in millions)	Cost	Gross Gains	Gross Losses	Fair Value
Public common stock	**$ 337**	**$ 31**	**$ 5**	**$ 363**
Non-redeemable preferred stock	**36**	**7**	**—**	**43**
Total	**$ 373**	**$ 38**	**$ 5**	**$ 406**

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

For the six months ended June 30, 2019, the Company recognized $45 million of net gains on equity securities still held as of June 30, 2019. For the six months ended June 30, 2018, the Company recognized $3 million of net gains on equity securities still held as of June 30, 2018.

3. INVESTMENTS, Continued

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at June 30, 2019 and December 31, 2018, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in the tables are estimates that are prepared using the process described in note 4 herein and in note 4 of notes to the consolidated financial statements in the Company's 2018 Annual Report. The Company also relies upon estimates of several factors in its review and evaluation of individual investments, using the process described in note 1 of notes to the consolidated financial statements in the Company's 2018 Annual Report to determine whether such investments are other-than-temporarily impaired.

	Less than 12 months		12 months or longer		Total	
(at June 30, 2019, 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	**$ 15**	**$ —**	**$ 503**	**$ 2**	**$ 518**	**$ 2**
Obligations of states, municipalities and political subdivisions	**126**	**—**	**232**	**1**	**358**	**1**
Debt securities issued by foreign governments	**24**	**—**	**210**	**1**	**234**	**1**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**88**	**—**	**472**	**4**	**560**	**4**
All other corporate bonds	**277**	**2**	**3,014**	**30**	**3,291**	**32**
Total fixed maturities	**$ 530**	**$ 2**	**$ 4,431**	**$ 38**	**$ 4,961**	**$ 40**

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

At June 30, 2019, the amount of gross unrealized losses for all fixed maturity investments reported at fair value for which fair value was less than 80% of amortized cost was not significant.

3. INVESTMENTS, Continued

Impairment Charges

Impairment charges included in net realized investment gains in the consolidated statement of income were $1 million for each of the three months ended June 30, 2019 and 2018, and $2 million and $1 million for the six months ended June 30, 2019 and 2018, respectively.

The cumulative amount of credit losses on fixed maturities held at June 30, 2019 and 2018 that were recognized in the consolidated statement of income from other-than-temporary impairments (OTTI) and for which a portion of the OTTI was recognized in other comprehensive income (loss) in the consolidated balance sheet was $54 million and $67 million, respectively. These credit losses represent less than 1% of the fixed maturity portfolio on a pre-tax basis and less than 1% of shareholders' equity on an after-tax basis at both dates. There were no significant changes in the credit component of OTTI during the three months and six months ended June 30, 2019 and 2018 compared to what was disclosed in note 3 of notes to the consolidated financial statements in the Company's 2018 Annual Report.

4. FAIR VALUE MEASUREMENTS

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

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

Valuation of Investments Reported at Fair Value in Financial Statements

The Company utilized a pricing service to estimate fair value measurements for approximately 99% of its fixed maturities at both June 30, 2019 and December 31, 2018.

While the vast majority of the Company's fixed maturities are included in Level 2, the Company holds a number of municipal bonds and corporate bonds which are not valued by the pricing service and also estimates the fair value of these bonds using another internal pricing matrix that includes some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3. The fair value of the fixed maturities for which the Company used this internal pricing matrix was $78 million and $82 million at June 30, 2019 and December 31, 2018, respectively. Additionally, the Company holds a small amount of other fixed maturity investments that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker (primarily the market maker). The fair value of the fixed maturities for which the Company received a broker quote was $32 million and $104 million at June 30, 2019 and December 31, 2018, respectively. Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

For more information regarding the valuation of the Company's fixed maturities, equity securities and other investments, see note 4 of notes to the consolidated financial statements in the Company's 2018 Annual Report.

4. FAIR VALUE MEASUREMENTS, Continued

Other Liabilities

The Company has a put/call option that was entered into in connection with a business acquisition that allows the Company to acquire the remaining shares of the acquired company at a future date. The fair value of the put/call at June 30, 2019 and December 31, 2018 was $7 million and $10 million, respectively, and was determined using an internal model and is based on the acquired company's financial performance, adjusted for a risk margin and discounted to present value. The Company includes the fair value estimate of the put/call in Level 3.

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis.

(at June 30, 2019, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,018	$ 2,018	$ —	$ —
Obligations of states, municipalities and political subdivisions	29,730	—	29,718	12
Debt securities issued by foreign governments	1,125	—	1,125	—
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,925	—	2,925	—
All other corporate bonds	31,321	—	31,223	98
Redeemable preferred stock	53	3	50	—
Total fixed maturities	67,172	2,021	65,041	110
Equity securities				
Public common stock	363	363	—	—
Non-redeemable preferred stock	43	19	24	—
Total equity securities	406	382	24	—
Other investments	59	16	—	43
Total	$ 67,637	$ 2,419	$ 65,065	$ 153
Other liabilities	$ 7	$ —	$ —	$ 7

4. FAIR VALUE MEASUREMENTS, Continued

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

There was no significant activity in Level 3 of the hierarchy during the six months ended June 30, 2019 or the year ended December 31, 2018.

Financial Instruments Disclosed, But Not Carried, At Fair Value

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

(at June 30, 2019, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Short-term securities	**$ 3,487**	**$ 3,487**	**$ 229**	**$ 3,209**	**$ 49**
Financial liabilities					
Debt	**$ 6,458**	**$ 7,936**	**$ —**	**$ 7,936**	**$ —**
Commercial paper	**$ 100**	**$ 100**	**$ —**	**$ 100**	$ —

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

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the six months ended June 30, 2019 or year ended December 31, 2018.

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)	June 30, 2019	December 31, 2018
Business Insurance	**$ 2,584**	$ 2,585
Bond & Specialty Insurance	**550**	550
Personal Insurance	**783**	776
Other	**26**	26
Total	**$ 3,943**	$ 3,937

Other Intangible Assets

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

(at June 30, 2019, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Subject to amortization			
Customer-related	**$ 96**	**$ 16**	**$ 80**
Contract-based [(1)]	**205**	**176**	**29**
Total subject to amortization	**301**	**192**	**109**
Not subject to amortization	**226**	**—**	**226**
Total	**$ 527**	**$ 192**	**$ 335**

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

(1) Contract-based intangible assets subject to amortization are comprised of fair value adjustments on claims and claim adjustment expense reserves, reinsurance recoverables and other contract-related intangible assets. Fair value adjustments recorded in connection with insurance acquisitions were based on management's estimate of nominal claims and claim adjustment expense reserves and reinsurance recoverables. The method used calculated a risk adjustment to a risk-free discounted reserve that would, if reserves ran off as expected, produce results that yielded the assumed cost-of-capital on the capital supporting the loss reserves. The fair value adjustments are reported as other intangible assets on the consolidated balance sheet, and the amounts measured in accordance with the acquirer's accounting policies for insurance contracts have been reported as part of the claims and claim adjustment expense reserves and reinsurance recoverables. The intangible assets are being recognized into income over the expected payment pattern. Because the time value of money and the risk adjustment (cost of capital) components of the intangible assets run off at different rates, the amount recognized in income may be a net benefit in some periods and a net expense in other periods.

Amortization expense of intangible assets was $4 million for both the three months ended June 30, 2019 and 2018, and $8 million for both the six months ended June 30, 2019 and 2018. Amortization expense for all intangible assets subject to amortization is estimated to be $7 million for the remainder of 2019, $14 million in 2020, $13 million in 2021, $13 million in 2022 and $12 million

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

in 2023. Amortization expense for intangible assets arising from insurance contracts acquired in a business combination is estimated to be $3 million for the remainder of 2019, $5 million in 2020, $4 million in 2021, $3 million in 2022 and $3 million in 2023.

6. INSURANCE CLAIM RESERVES

Claims and claim adjustment expense reserves were as follows:

(in millions)	June 30, 2019	December 31, 2018
Property-casualty	**$ 51,059**	$ 50,653
Accident and health	**14**	15
Total	**$ 51,073**	$ 50,668

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

	Six Months Ended June 30,	
(in millions)	2019	2018
Claims and claim adjustment expense reserves at beginning of year	**$ 50,653**	$ 49,633
Less reinsurance recoverables on unpaid losses	**8,182**	8,123
Net reserves at beginning of year	**42,471**	41,510
Estimated claims and claim adjustment expenses for claims arising in the current year	**9,329**	9,084
Estimated decrease in claims and claim adjustment expenses for claims arising in prior years	**(118)**	(268)
Total increases	**9,211**	8,816
Claims and claim adjustment expense payments for claims arising in:		
Current year	**2,810**	2,851
Prior years	**5,897**	5,454
Total payments	**8,707**	8,305
Unrealized foreign exchange (gain) loss	**62**	(102)
Net reserves at end of period	**43,037**	41,919
Plus reinsurance recoverables on unpaid losses	**8,022**	8,026
Claims and claim adjustment expense reserves at end of period	**$ 51,059**	$ 49,945

Gross claims and claim adjustment expense reserves at June 30, 2019 increased by $406 million from December 31, 2018, primarily reflecting the impact of higher volumes of insured exposures and loss cost trends for the current accident year, partially offset by net favorable prior year reserve development.

Reinsurance recoverables on unpaid losses at June 30, 2019 decreased by $160 million from December 31, 2018, primarily reflecting the impact of cash collections in the first six months of 2019.

The Company continues to evaluate the estimated realizable value of its subrogation claims related to the 2017 and 2018 California wildfires and the impact of recent developments, including the recent re-organization proposals by various stakeholders in the Pacific Gas & Electric Company (PG&E) bankruptcy. Due to the risks and uncertainties associated with the PG&E bankruptcy and other factors, the Company has not recognized a subrogation benefit related to these claims.

6. INSURANCE CLAIM RESERVES, Continued

Prior Year Reserve Development

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

For the six months ended June 30, 2019 and 2018, estimated claims and claim adjustment expenses incurred included $118 million and $268 million, respectively, of net favorable development for claims arising in prior years, including $174 million and $336 million, respectively, of net favorable prior year reserve development and $25 million of accretion of discount in each period that impacted the Company's results of operations.

Business Insurance. Net favorable prior year reserve development in the second quarter of 2019 totaled $71 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, partially offset by higher than expected loss experience in the segment's domestic operations in (ii) the general liability product line for primary and excess coverages for multiple accident years, including a $60 million increase to environmental reserves for accident years 2009 and prior and (iii) the commercial automobile product line for recent accident years, as well as (iv) higher than expected loss experience in the segment's international operations. Net favorable prior year reserve development in the second quarter of 2018 totaled $84 million, primarily driven by better than expected loss experience in the segment's domestic operations in the workers’ compensation product line for multiple accident years, partially offset by higher than expected loss experience in the segment's domestic operations in the general liability product line, including a $55 million increase to environmental reserves, for accident years 2008 and prior.

Net favorable prior year reserve development in the first six months of 2019 totaled $50 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 commercial property product line for recent accident years, partially offset by higher than expected loss experience in the segment's domestic operations in (iii) the general liability product line for primary and excess coverages for multiple accident years, including the impact of (a) the enactment of legislation by a number of states, which extended the statute of limitations for childhood sexual molestation claims and (b) a $60 million increase to environmental reserves, both of which impacted accident years 2009 and prior, (iv) the commercial automobile product line for recent accident years and (v) the commercial multi-peril product line for recent accident years. Net favorable prior year reserve development in the first six months of 2018 totaled $150 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 commercial property product line for recent accident years, partially offset by higher than expected loss experience in the segment's domestic operations in (iii) the general liability product line, including a $55 million increase to environmental reserves, for accident years 2008 and prior and (iv) the commercial automobile product line for recent accident years.

Bond & Specialty Insurance. Net favorable prior year reserve development in the second quarter and first six months of 2019 totaled $39 million and $42 million, respectively, and net favorable prior year reserve development in the second quarter and first six months of 2018 totaled $89 million and $124 million, respectively. Net favorable prior year reserve development in all periods was primarily driven by better than expected loss experience in the segment's domestic operations in the general liability product line for multiple accident years.

Personal Insurance. Net favorable prior year reserve development in each of the second quarters of 2019 and 2018 totaled $13 million. Net favorable prior year reserve development in the first six months of 2019 totaled $82 million, primarily driven by better than expected loss experience in the segment's domestic operations in both the automobile and homeowners and other product lines for recent accident years. Net favorable prior year reserve development in the first six months of 2018 totaled $62 million, primarily driven by better than expected loss experience in the segment's domestic operations in the automobile product line for recent accident years.

7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following tables present the changes in the Company's accumulated other comprehensive income (loss) (AOCI) for the three months and six months ended June 30, 2019.

	Changes in Net Unrealized Gains (Losses) on Investment Securities				
(in millions)	Having No Credit Losses Recognized in the Consolidated Statement of Income	Having Credit Losses Recognized in the Consolidated Statement of Income	Net Benefit Plan Assets and Obligations Recognized in Shareholders' Equity	Net Unrealized Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
Balance, March 31, 2019	**810**	**197**	**(863)**	**(826)**	**(682)**
Other comprehensive income (loss) (OCI) before reclassifications, net of tax	**884**	**(3)**	**—**	**6**	**887**
Amounts reclassified from AOCI, net of tax	**(10)**	**—**	**11**	**—**	**1**
Net OCI, current period	**874**	**(3)**	**11**	**6**	**888**
Balance, June 30, 2019	**$ 1,684**	**$ 194**	**$ (852)**	**$ (820)**	**$ 206**

	Changes in Net Unrealized Gains (Losses) on Investment Securities				
(in millions)	Having No Credit Losses Recognized in the Consolidated Statement of Income	Having Credit Losses Recognized in the Consolidated Statement of Income	Net Benefit Plan Assets and Obligations Recognized in Shareholders' Equity	Net Unrealized Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2018	**$ (306)**	**$ 193**	**$ (873)**	**$ (873)**	**$ (1,859)**
Other comprehensive income (OCI) before reclassifications, net of tax	**2,013**	**1**	**—**	**53**	**2,067**
Amounts reclassified from AOCI, net of tax	**(23)**	**—**	**21**	**—**	**(2)**
Net OCI, current period	**1,990**	**$ 1**	**$ 21**	**$ 53**	**$ 2,065**
Balance, June 30, 2019	**$ 1,684**	**$ 194**	**$ (852)**	**$ (820)**	**$ 206**

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2019**	**2018**	**2019**	**2018**
Changes in net unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income	**$ 1,108**	$ (298)	**$ 2,524**	$ (1,501)
Income tax expense (benefit)	**234**	(63)	**534**	(316)
Net of taxes	**874**	(235)	**1,990**	(1,185)
Having credit losses recognized in the consolidated statement of income	**(4)**	(12)	**1**	(14)
Income tax expense (benefit)	**(1)**	(2)	**—**	(3)
Net of taxes	**(3)**	(10)	**1**	(11)
Net changes in benefit plan assets and obligations	**14**	21	**26**	43
Income tax expense	**3**	4	**5**	9
Net of taxes	**11**	17	**21**	34
Net changes in unrealized foreign currency translation	**5**	(158)	**55**	(152)
Income tax expense (benefit)	**(1)**	(20)	**2**	(15)
Net of taxes	**6**	(138)	**53**	(137)
Total other comprehensive income (loss)	**1,123**	(447)	**2,606**	(1,624)
Total income tax expense (benefit)	**235**	(81)	**541**	(325)
Total other comprehensive income (loss), net of taxes	**$ 888**	$ (366)	**$ 2,065**	$ (1,299)

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 June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income (1)	**$ (13)**	$ (12)	**$ (29)**	$ (12)
Income tax expense (2)	**(3)**	(3)	**(6)**	(3)
Net of taxes	**(10)**	(9)	**(23)**	(9)
Having credit losses recognized in the consolidated statement of income (1)	**—**	—	**—**	—
Income tax benefit (2)	**—**	—	**—**	—
Net of taxes	**—**	—	**—**	—
Reclassification adjustment related to benefit plan assets and obligations:				
Claims and claim adjustment expenses (3)	**6**	8	**11**	17
General and administrative expenses (3)	**7**	13	**15**	26
Total	**13**	21	**26**	43
Income tax benefit (2)	**2**	4	**5**	9
Net of taxes	**11**	17	**21**	34
Reclassification adjustment related to foreign currency translation (1)	**—**	—	**—**	—
Income tax benefit (2)	**—**	—	**—**	—
Net of taxes	**—**	—	**—**	—
Total reclassifications	**—**	9	**(3)**	31
Total income tax (expense) benefit	**(1)**	1	**(1)**	6
Total reclassifications, net of taxes	**$ 1**	$ 8	**$ (2)**	$ 25

(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.

8. DEBT

Debt Issuance. On March 4, 2019, the Company issued $500 million aggregate principal amount of 4.10% senior notes that will mature on March 4, 2049. The net proceeds of the issuance, after the deduction of the underwriting discount and expenses payable by the Company, totaled approximately $492 million. Interest on the senior notes is payable semi-annually in arrears on March 4 and September 4. Prior to September 4, 2048, the senior notes may be redeemed, in whole or in part, at the Company's option, at any time or from time to time, at a redemption price equal to the greater of (a) 100% of the principal amount of any senior notes to be redeemed or (b) the sum of the present values of the remaining scheduled payments of principal and interest to but excluding September 4, 2048 on any senior notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current Treasury rate (as defined in the senior notes), plus 20 basis points. On or after September 4, 2048, the senior notes may be redeemed, in whole or in part, at the Company's option, at any time or from time to time, at a redemption price equal to 100% of the principal amount of any senior notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

8. DEBT, Continued

Debt Repayment. On June 2, 2019, the Company's $500 million, 5.90% senior notes matured and were fully paid.

Commercial Paper. The Company had $100 million of commercial paper outstanding at both June 30, 2019 and December 31, 2018.

9. COMMON SHARE REPURCHASES

During the three months and six months ended June 30, 2019, the Company repurchased 2.6 million and 5.5 million shares, respectively, under its share repurchase authorization, for a total cost of $375 million and $750 million, respectively. The average cost per share repurchased was $145.87 and $137.15, respectively. In addition, the Company acquired 3,460 shares and 0.3 million shares for a total cost of $0.5 million and $47 million during the three months and six months ended June 30, 2019, 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. At June 30, 2019, the Company had $2.54 billion of capacity remaining under its share repurchase authorization.

10. EARNINGS PER SHARE

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

(in millions, except per share amounts)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Basic and Diluted				
Net income, as reported	**$ 557**	$ 524	**$ 1,353**	$ 1,193
Participating share-based awards — allocated income	**(4)**	(4)	**(10)**	(9)
Net income available to common shareholders — basic and diluted	**$ 553**	$ 520	**$ 1,343**	$ 1,184
Common Shares				
Basic				
Weighted average shares outstanding	**261.3**	268.7	**262.1**	269.8
Diluted				
Weighted average shares outstanding	**261.3**	268.7	**262.1**	269.8
Weighted average effects of dilutive securities — stock options and performance shares	**2.4**	2.4	**2.1**	2.7
Total	**263.7**	271.1	**264.2**	272.5
Net Income per Common Share				
Basic	**$ 2.11**	$ 1.93	**$ 5.12**	$ 4.39
Diluted	**$ 2.10**	$ 1.92	**$ 5.08**	$ 4.35

11. SHARE-BASED INCENTIVE COMPENSATION

The following information relates to fully vested stock option awards at June 30, 2019:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value ($ in millions)
Vested at end of period [1]	**6,120,874**	**$ 105.70**	**5.8 years**	**$ 268**
Exercisable at end of period	**4,202,289**	**$ 95.63**	**4.5 years**	**$ 226**

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

The total compensation cost for all share-based incentive compensation awards recognized in earnings was $35 million and $33 million for the three months ended June 30, 2019 and 2018, respectively, and $80 million and $77 million for the six months ended June 30, 2019 and 2018, respectively. The related tax benefits recognized in the consolidated statement of income were $6 million for each of the three months ended June 30, 2019 and 2018, and $14 million for each of the six months ended June 30, 2019 and 2018.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at June 30, 2019 was $202 million, which is expected to be recognized over a weighted-average period of 2.0 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 June 30, 2019 and 2018.

	Pension Plans		Postretirement Benefit Plans	
(for the three months ended June 30, in millions)	2019	2018	2019	2018
Net Periodic Benefit Cost:				
Service cost	**$ 29**	$ 33	**$ —**	$ —
Non-service cost:				
Interest cost on benefit obligation	**$ 35**	$ 32	**$ 2**	$ 2
Expected return on plan assets	**(68)**	(66)	**—**	—
Amortization of unrecognized:				
Prior service benefit	**(1)**	(1)	**(1)**	(1)
Net actuarial loss	**14**	23	**—**	—
Total non-service cost (benefit)	**(20)**	(12)	**1**	1
Net periodic benefit cost	**$ 9**	$ 21	**$ 1**	$ 1

The following table indicates the line items in which the respective service costs and non-service cost (benefit) are presented in the consolidated statement of income for the three months ended June 30, 2019 and 2018.

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

(for the three months ended June 30, in millions)	Pension Plans 2019	Pension Plans 2018	Postretirement Benefit Plans 2019	Postretirement Benefit Plans 2018
Service Cost:				
Claims and claim adjustment expenses	**$ 12**	$ 14	**$ —**	$ —
General and administrative expenses	**17**	19	**—**	—
Total service cost	**29**	33	**—**	—
Non-Service Cost (Benefit):				
Claims and claim adjustment expenses	**(8)**	(5)	**1**	1
General and administrative expenses	**(12)**	(7)	**—**	—
Total non-service cost (benefit)	**(20)**	(12)	**1**	1
Net periodic benefit cost	**$ 9**	$ 21	**$ 1**	$ 1

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 six months ended June 30, 2019 and 2018.

(for the six months ended June 30, in millions)	Pension Plans 2019	Pension Plans 2018	Postretirement Benefit Plans 2019	Postretirement Benefit Plans 2018
Net Periodic Benefit Cost:				
Service cost	**$ 59**	$ 66	**$ —**	$ —
Non-service cost:				
Interest cost on benefit obligation	**70**	63	**4**	4
Expected return on plan assets	**(137)**	(132)	**—**	—
Amortization of unrecognized:				
Prior service benefit	**(1)**	(1)	**(2)**	(2)
Net actuarial loss	**28**	46	**—**	—
Total non-service cost (benefit)	**(40)**	(24)	**2**	2
Net periodic benefit cost	**$ 19**	$ 42	**$ 2**	$ 2

The following table indicates the line items in which the respective service costs and non-service cost (benefit) are presented in the consolidated statement of income for the six months ended June 30, 2019 and 2018.

(for the six months ended June 30, in millions)	Pension Plans 2019	Pension Plans 2018	Postretirement Benefit Plans 2019	Postretirement Benefit Plans 2018
Service Cost:				
Claims and claim adjustment expenses	**$ 24**	$ 27	**$ —**	$ —
General and administrative expenses	**35**	39	**—**	—
Total service cost	**59**	66	**—**	—
Non-Service Cost (Benefit):				
Claims and claim adjustment expenses	**(16)**	(10)	**1**	1
General and administrative expenses	**(24)**	(14)	**1**	1
Total non-service cost (benefit)	**(40)**	(24)	**2**	2
Net periodic benefit cost	**$ 19**	$ 42	**$ 2**	$ 2

13. LEASES

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

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

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

(in millions)	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Lease cost		
Operating leases	$ 23	$ 45
Short-term leases [1]	3	7
Lease expense	26	52
Less: sublease income [2]	—	—
Net lease cost	$ 26	$ 52
Other information on operating leases		
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 26	$ 50
Right-of-use assets obtained in exchange for new lease liabilities	$ 28	$ 36
Weighted average discount rate	3.05%	3.05%
Weighted average remaining lease term in years	5.2 years	5.2 years

(1) Leases with an initial term of twelve months or less are not recorded on the balance sheet.
(2) Sublease income consists of rent from third parties of office space and is recognized as part of other revenues in the consolidated statement of income.

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

(in millions)	Real Estate Lease Liability
Remainder of 2019	$ 51
2020	103
2021	89
2022	67
2023	47
Thereafter	80
Total undiscounted lease payments	437
Less: present value adjustment	42
Operating lease liability	$ 395

14. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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

Asbestos and Environmental Claims and Litigation

In the ordinary course of its insurance business, the Company has received and continues to receive claims for insurance arising under policies issued by the Company asserting alleged injuries and damages from asbestos- and environmental-related exposures that are the subject of related coverage litigation. The Company is defending asbestos- and environmental-related litigation vigorously and believes that it has meritorious defenses; however, the outcomes of these disputes are uncertain. In this regard, the Company employs dedicated specialists and comprehensive resolution strategies to manage asbestos and environmental loss exposure, including settling litigation under appropriate circumstances. Currently, it is not possible to predict legal outcomes and their impact on future loss development for claims and litigation relating to asbestos and environmental claims. Any such development could be affected by future court decisions and interpretations, as well as future changes, if any, in applicable legislation. Because of these uncertainties, additional liabilities may arise for amounts in excess of the Company's current insurance reserves. In addition, the Company's estimate of ultimate claims and claim adjustment expenses may change. These additional liabilities or changes in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company's results of operations in future periods.

Other Proceedings Not Arising Under Insurance Contracts or Reinsurance Agreements

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

Other Commitments and Guarantees

Commitments

Investment Commitments — The Company has unfunded commitments to private equity limited partnerships and real estate partnerships in which it invests. These commitments totaled $1.57 billion and $1.60 billion at June 30, 2019 and December 31, 2018, respectively.

Guarantees

The maximum amount of the Company's contingent obligation for indemnifications related to the sale of businesses that are quantifiable was $352 million at June 30, 2019.

The maximum amount of the Company's obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was $0 at June 30, 2019. The maximum amount of the Company's obligation related to the guarantee of certain insurance policy obligations of a former insurance subsidiary was $480 million at June 30, 2019, all of which is indemnified by a third party. For more information regarding Company guarantees, see note 16 of notes to the consolidated financial statements in the Company's 2018 Annual Report.

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

The following consolidating financial statements of the Company have been prepared pursuant to Rule 3-10 of Regulation S-X. These consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the consolidated financial statements. The Travelers Companies, Inc. (excluding its subsidiaries, TRV) has fully and

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

unconditionally guaranteed certain debt obligations of Travelers Property Casualty Corp. (TPC) and Travelers Insurance Group Holdings, Inc. (TIGHI), which totaled $700 million at June 30, 2019.

Prior to the merger of TPC and The St. Paul Companies, Inc. in 2004, TPC fully and unconditionally guaranteed the payment of all principal, premiums, if any, and interest on certain debt obligations of its wholly-owned subsidiary, TIGHI. Concurrent with the merger, TRV fully and unconditionally assumed such guarantee obligations of TPC. TPC is deemed to have no assets or 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 June 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 4,786	$ 2,202	$ —	$ —	$ 6,988
Net investment income	455	181	12	—	648
Fee income	116	—	—	—	116
Net realized investment gains (1)	14	6	5	—	25
Other revenues	31	26	—	—	57
Total revenues	5,402	2,415	17	—	7,834
Claims and expenses					
Claims and claim adjustment expenses	3,248	1,573	—	—	4,821
Amortization of deferred acquisition costs	740	394	—	—	1,134
General and administrative expenses	768	352	5	—	1,125
Interest expense	12	—	77	—	89
Total claims and expenses	4,768	2,319	82	—	7,169
Income (loss) before income taxes	634	96	(65)	—	665
Income tax expense (benefit)	122	12	(26)	—	108
Net income of subsidiaries	—	—	596	(596)	—
Net income	$ 512	$ 84	$ 557	$ (596)	$ 557

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(1) Total other-than-temporary impairments (OTTI) for the three months ended June 30, 2019, 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)	$ —	$ —	$ (1)
OTTI losses recognized in net realized investment gains	$ —	$ (1)	$ —	$ —	$ (1)
OTTI losses recognized in OCI	$ —	$ —	$ —	$ —	$ —

Table of Contents

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the three months ended June 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 4,577	$ 2,118	$ —	$ —	$ 6,695
Net investment income	412	175	8	—	595
Fee income	112	—	—	—	112
Net realized investment gains (1)	18	16	2	—	36
Other revenues	13	27	—	(1)	39
Total revenues	5,132	2,336	10	(1)	7,477
Claims and expenses					
Claims and claim adjustment expenses	3,064	1,498	—	—	4,562
Amortization of deferred acquisition costs	727	354	—	—	1,081
General and administrative expenses	766	343	5	(1)	1,113
Interest expense	13	—	77	—	90
Total claims and expenses	4,570	2,195	82	(1)	6,846
Income (loss) before income taxes	562	141	(72)	—	631
Income tax expense (benefit)	104	21	(18)	—	107
Net income of subsidiaries	—	—	578	(578)	—
Net income	$ 458	$ 120	$ 524	$ (578)	$ 524

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(1) Total other-than-temporary impairments (OTTI) for the three months ended June 30, 2018, and the amounts comprising total OTTI that were recognized in net realized investment gains and in other comprehensive income (loss) (OCI) were as follows:

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

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the six months ended June 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 9,475	$ 4,368	$ —	$ —	$ 13,843
Net investment income	871	336	23	—	1,230
Fee income	225	—	—	—	225
Net realized investment gains (1)	36	21	21	—	78
Other revenues	69	60	—	—	129
Total revenues	10,676	4,785	44	—	15,505
Claims and expenses					
Claims and claim adjustment expenses	6,272	2,991	—	—	9,263
Amortization of deferred acquisition costs	1,485	766	—	—	2,251
General and administrative expenses	1,490	682	10	—	2,182
Interest expense	24	—	153	—	177
Total claims and expenses	9,271	4,439	163	—	13,873
Income (loss) before income taxes	1,405	346	(119)	—	1,632
Income tax expense (benefit)	268	54	(43)	—	279
Net income of subsidiaries	—	—	1,429	(1,429)	—
Net income	$ 1,137	$ 292	$ 1,353	$ (1,429)	$ 1,353

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(1) Total other-than-temporary impairment (OTTI) for the six months ended June 30, 2019, 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)	$ (1)	$ —	$ —	$ (2)
OTTI losses recognized in net realized investment gains	$ (1)	$ (1)	$ —	$ —	$ (2)
OTTI losses recognized in OCI	$ —	$ —	$ —	$ —	$ —

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the six months ended June 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 9,045	$ 4,187	$ —	$ —	$ 13,232
Net investment income	824	360	14	—	1,198
Fee income	215	—	—	—	215
Net realized investment gains (1)	20	4	1	—	25
Other revenues	40	55	—	(2)	93
Total revenues	10,144	4,606	15	(2)	14,763
Claims and expenses					
Claims and claim adjustment expenses	5,974	2,884	—	—	8,858
Amortization of deferred acquisition costs	1,432	710	—	—	2,142
General and administrative expenses	1,495	671	11	(2)	2,175
Interest expense	24	—	155	—	179
Total claims and expenses	8,925	4,265	166	(2)	13,354
Income (loss) before income taxes	1,219	341	(151)	—	1,409
Income tax expense (benefit)	210	53	(47)	—	216
Net income of subsidiaries	—	—	1,297	(1,297)	—
Net income	$ 1,009	$ 288	$ 1,193	$ (1,297)	$ 1,193

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(1) Total other-than-temporary impairment (OTTI) for the six months ended June 30, 2018, and the amounts comprising total OTTI that were recognized in net realized investment gains and in other comprehensive income (loss) (OCI) were as follows:

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

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
For the three months ended June 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 512	$ 84	$ 557	$ (596)	$ 557
Other comprehensive income:					
Changes in net unrealized gains (losses) on investment securities:					
Having no credit losses recognized in the consolidated statement of income	786	321	1	—	1,108
Having credit losses recognized in the consolidated statement of income	(3)	(1)	—	—	(4)
Net changes in benefit plan assets and obligations	—	—	14	—	14
Net changes in unrealized foreign currency translation	23	(18)	—	—	5
Other comprehensive income before income taxes and other comprehensive income of subsidiaries	806	302	15	—	1,123
Income tax expense	167	67	1	—	235
Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries	639	235	14	—	888
Other comprehensive income of subsidiaries	—	—	874	(874)	—
Other comprehensive income	639	235	888	(874)	888
Comprehensive income	$ 1,151	$ 319	$ 1,445	$ (1,470)	$ 1,445

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
For the three months ended June 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 458	$ 120	$ 524	$ (578)	$ 524
Other comprehensive income (loss):					
Changes in net unrealized gains (losses) on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(209)	(89)	—	—	(298)
Having credit losses recognized in the consolidated statement of income	(10)	(2)	—	—	(12)
Net changes in benefit plan assets and obligations	—	—	21	—	21
Net changes in unrealized foreign currency translation	(77)	(81)	—	—	(158)
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(296)	(172)	21	—	(447)
Income tax benefit	(58)	(21)	(2)	—	(81)
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(238)	(151)	23	—	(366)
Other comprehensive loss of subsidiaries	—	—	(389)	389	—
Other comprehensive loss	(238)	(151)	(366)	389	(366)
Comprehensive income (loss)	$ 220	$ (31)	$ 158	$ (189)	$ 158

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
For the six months ended June 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 1,137	$ 292	$ 1,353	$ (1,429)	$ 1,353
Other comprehensive income:					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	1,765	756	3	—	2,524
Having credit losses recognized in the consolidated statement of income	1	—	—	—	1
Net changes in benefit plan assets and obligations	—	—	26	—	26
Net changes in unrealized foreign currency translation	42	13	—	—	55
Other comprehensive income before income taxes and other comprehensive income of subsidiaries	1,808	769	29	—	2,606
Income tax expense	375	160	6	—	541
Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries	1,433	609	23	—	2,065
Other comprehensive income of subsidiaries	—	—	2,042	(2,042)	—
Other comprehensive income	1,433	609	2,065	(2,042)	2,065
Comprehensive income	$ 2,570	$ 901	$ 3,418	$ (3,471)	$ 3,418

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
For the six months ended June 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 1,009	$ 288	$ 1,193	$ (1,297)	$ 1,193
Other comprehensive income (loss):					
Changes in net unrealized gains (losses) on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(1,047)	(453)	(1)	—	(1,501)
Having credit losses recognized in the consolidated statement of income	(11)	(3)	—	—	(14)
Net changes in benefit plan assets and obligations	—	—	43	—	43
Net changes in unrealized foreign currency translation	(102)	(50)	—	—	(152)
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(1,160)	(506)	42	—	(1,624)
Income tax expense (benefit)	(233)	(98)	6	—	(325)
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(927)	(408)	36	—	(1,299)
Other comprehensive loss of subsidiaries	—	—	(1,335)	1,335	—
Other comprehensive loss	(927)	(408)	(1,299)	1,335	(1,299)
Comprehensive income (loss)	$ 82	$ (120)	$ (106)	$ 38	$ (106)

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

CONSOLIDATING BALANCE SHEET (Unaudited)
At June 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost $64,784)	$ 46,480	$ 20,604	$ 88	$ —	$ 67,172
Equity securities, at fair value (cost $373)	105	106	195	—	406
Real estate investments	2	963	—	—	965
Short-term securities	1,439	633	1,415	—	3,487
Other investments	2,688	777	1	—	3,466
Total investments	50,714	23,083	1,699	—	75,496
Cash	198	218	—	—	416
Investment income accrued	430	183	2	—	615
Premiums receivable	5,587	2,710	—	—	8,297
Reinsurance recoverables	6,472	1,762	—	—	8,234
Ceded unearned premiums	742	122	—	—	864
Deferred acquisition costs	2,087	194	—	—	2,281
Contractholder receivables	4,766	10	—	—	4,776
Goodwill	2,582	1,370	—	(9)	3,943
Other intangible assets	220	115	—	—	335
Investment in subsidiaries	—	—	29,342	(29,342)	—
Other assets	2,472	158	685	—	3,315
Total assets	$ 76,270	$ 29,925	$ 31,728	$ (29,351)	$ 108,572
Liabilities					
Claims and claim adjustment expense reserves	$ 35,055	$ 16,018	$ —	$ —	$ 51,073
Unearned premium reserves	10,116	4,422	—	—	14,538
Contractholder payables	4,766	10	—	—	4,776
Payables for reinsurance premiums	340	251	—	—	591
Deferred taxes	234	(179)	32	—	87
Debt	693	—	5,865	—	6,558
Other liabilities	4,224	902	502	—	5,628
Total liabilities	55,428	21,424	6,399	—	83,251
Shareholders' equity					
Common stock (1,750.0 shares authorized; 260.4 shares issued and 260.3 shares outstanding)	—	484	23,372	(484)	23,372
Additional paid-in capital	11,634	7,046	—	(18,680)	—
Retained earnings	8,336	808	36,143	(9,152)	36,135
Accumulated other comprehensive income	872	163	206	(1,035)	206
Treasury stock, at cost (516.7 shares)	—	—	(34,392)	—	(34,392)
Total shareholders' equity	20,842	8,501	25,329	(29,351)	25,321
Total liabilities and shareholders' equity	$ 76,270	$ 29,925	$ 31,728	$ (29,351)	$ 108,572

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

CONSOLIDATING BALANCE SHEET (Unaudited)
At December 31, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost $63,601)	$ 43,683	$ 19,697	$ 84	$ —	$ 63,464
Equity securities, available for sale, at fair value (cost $382)	105	92	171	—	368
Real estate investments	2	902	—	—	904
Short-term securities	1,855	759	1,371	—	3,985
Other investments	2,746	810	1	—	3,557
Total investments	48,391	22,260	1,627	—	72,278
Cash	181	192	—	—	373
Investment income accrued	434	187	3	—	624
Premiums receivable	5,089	2,417	—	—	7,506
Reinsurance recoverables	5,904	2,466	—	—	8,370
Ceded unearned premiums	522	56	—	—	578
Deferred acquisition costs	1,930	190	—	—	2,120
Deferred taxes	167	302	(24)	—	445
Contractholder receivables	3,867	918	—	—	4,785
Goodwill	2,578	1,368	—	(9)	3,937
Other intangible assets	224	121	—	—	345
Investment in subsidiaries	—	—	26,993	(26,993)	—
Other assets	2,220	15	669	(32)	2,872
Total assets	$ 71,507	$ 30,492	$ 29,268	$ (27,034)	$ 104,233
Liabilities					
Claims and claim adjustment expense reserves	$ 34,093	$ 16,575	$ —	$ —	$ 50,668
Unearned premium reserves	9,414	4,141	—	—	13,555
Contractholder payables	3,867	918	—	—	4,785
Payables for reinsurance premiums	169	120	—	—	289
Debt	693	32	5,871	(32)	6,564
Other liabilities	4,133	849	496	—	5,478
Total liabilities	52,369	22,635	6,367	(32)	81,339
Shareholders' equity					
Common stock (1,750.0 shares authorized; 263.7 shares issued and 263.6 shares outstanding)	—	401	23,144	(401)	23,144
Additional paid-in capital	11,634	7,023	—	(18,657)	—
Retained earnings	8,065	879	35,211	(8,951)	35,204
Accumulated other comprehensive loss	(561)	(446)	(1,859)	1,007	(1,859)
Treasury stock, at cost (510.9 shares)	—	—	(33,595)	—	(33,595)
Total shareholders' equity	19,138	7,857	22,901	(27,002)	22,894
Total liabilities and shareholders' equity	$ 71,507	$ 30,492	$ 29,268	$ (27,034)	$ 104,233

Table of Contents

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the six months ended June 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,137	$ 292	$ 1,353	$ (1,429)	$ 1,353
Net adjustments to reconcile net income to net cash provided by operating activities	314	213	(256)	168	439
Net cash provided by operating activities	1,451	505	1,097	(1,261)	1,792
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	2,106	924	8	—	3,038
Proceeds from sales of investments:					
Fixed maturities	968	526	1	—	1,495
Equity securities	33	38	—	—	71
Other investments	201	39	—	—	240
Purchases of investments:					
Fixed maturities	(4,049)	(1,650)	(9)	—	(5,708)
Equity securities	(1)	(37)	(3)	—	(41)
Real estate investments	—	(85)	—	—	(85)
Other investments	(234)	(28)	—	—	(262)
Net sales (purchases) of short-term securities	416	125	(44)	—	497
Securities transactions in course of settlement	157	66	—	—	223
Other	(166)	(3)	—	—	(169)
Net cash used in investing activities	(569)	(85)	(47)	—	(701)
Cash flows from financing activities					
Treasury stock acquired — share repurchase authorization	—	—	(750)	—	(750)
Treasury stock acquired — net employee share-based compensation	—	—	(47)	—	(47)
Dividends paid to shareholders	—	—	(419)	—	(419)
Payment of debt	—	(32)	(500)	32	(500)
Issuance of debt	—	—	492	—	492
Issuance of common stock — employee share options	—	—	174	—	174
Dividends paid to parent company	(866)	(363)	—	1,229	—
Net cash used in financing activities	(866)	(395)	(1,050)	1,261	(1,050)
Effect of exchange rate changes on cash	1	1	—	—	2
Net increase in cash	17	26	—	—	43
Cash at beginning of year	181	192	—	—	373
Cash at end of period	$ 198	$ 218	$ —	$ —	$ 416
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 244	$ 91	$ (10)	$ —	$ 325
Interest paid	$ 24	$ —	$ 147	$ —	$ 171

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the six months ended June 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,009	$ 288	$ 1,193	$ (1,297)	$ 1,193
Net adjustments to reconcile net income to net cash provided by operating activities	323	11	146	25	505
Net cash provided by operating activities	1,332	299	1,339	(1,272)	1,698
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	2,730	914	13	—	3,657
Proceeds from sales of investments:					
Fixed maturities	1,847	759	1	—	2,607
Equity securities	33	59	—	—	92
Other investments	133	56	—	—	189
Purchases of investments:					
Fixed maturities	(5,762)	(2,173)	(17)	—	(7,952)
Equity securities	(2)	(56)	(2)	—	(60)
Real estate investments	—	(44)	—	—	(44)
Other investments	(232)	(43)	—	—	(275)
Net sales (purchases) of short-term securities	986	383	(167)	—	1,202
Securities transactions in course of settlement	268	12	(1)	—	279
Other	(148)	(4)	—	—	(152)
Net cash used in investing activities	(147)	(137)	(173)	—	(457)
Cash flows from financing activities					
Treasury stock acquired — share repurchase authorization	—	—	(700)	—	(700)
Treasury stock acquired — net employee share-based compensation	—	—	(51)	—	(51)
Dividends paid to shareholders	—	—	(404)	—	(404)
Payment of debt	—	—	(600)	—	(600)
Issuance of debt	—	7	491	(7)	491
Issuance of common stock — employee share options	—	—	98	—	98
Dividends paid to parent company	(1,109)	(170)	—	1,279	—
Net cash used in financing activities	(1,109)	(163)	(1,166)	1,272	(1,166)
Effect of exchange rate changes on cash	(2)	(2)	—	—	(4)
Net increase (decrease) in cash	74	(3)	—	—	71
Cash at beginning of year	157	187	—	—	344
Cash at end of period	$ 231	$ 184	$ —	$ —	$ 415
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 193	$ 171	$ (126)	$ —	$ 238
Interest paid	$ 24	$ —	$ 151	$ —	$ 175

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

2019 Second Quarter Consolidated Results of Operations

- Net income of $557 million, or $2.11 per share basic and $2.10 per share diluted
- Net earned premiums of $6.99 billion
- Catastrophe losses of $367 million ($290 million after-tax)
- Net favorable prior year reserve development of $123 million ($99 million after-tax)
- Combined ratio of 98.4%
- Net investment income of $648 million ($548 million after-tax)
- Operating cash flows of $1.15 billion

2019 Second Quarter Consolidated Financial Condition

- Total investments of $75.50 billion; fixed maturities and short-term securities comprised 94% of total investments
- Total assets of $108.57 billion
- Total debt of $6.56 billion, resulting in a debt-to-total capital ratio of 20.6% (21.9% excluding net unrealized investment gains, net of tax)
- Repurchased 2.6 million common shares for total cost of $376 million and paid $214 million of dividends to shareholders
- Shareholders’ equity of $25.32 billion
- Net unrealized investment gains of $2.39 billion ($1.88 billion after-tax)
- Book value per common share of $97.26
- Holding company liquidity of $1.46 billion

CONSOLIDATED OVERVIEW

Consolidated Results of Operations

(in millions, except ratio and per share amounts)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenues				
Premiums	**$ 6,988**	$ 6,695	**$ 13,843**	$ 13,232
Net investment income	**648**	595	**1,230**	1,198
Fee income	**116**	112	**225**	215
Net realized investment gains	**25**	36	**78**	25
Other revenues	**57**	39	**129**	93
Total revenues	**7,834**	7,477	**15,505**	14,763
Claims and expenses				
Claims and claim adjustment expenses	**4,821**	4,562	**9,263**	8,858
Amortization of deferred acquisition costs	**1,134**	1,081	**2,251**	2,142
General and administrative expenses	**1,125**	1,113	**2,182**	2,175
Interest expense	**89**	90	**177**	179
Total claims and expenses	**7,169**	6,846	**13,873**	13,354
Income before income taxes	**665**	631	**1,632**	1,409
Income tax expense	**108**	107	**279**	216
Net income	**$ 557**	$ 524	**$ 1,353**	$ 1,193
Net income per share				
Basic	**$ 2.11**	$ 1.93	**$ 5.12**	$ 4.39
Diluted	**$ 2.10**	$ 1.92	**$ 5.08**	$ 4.35
Combined ratio				
Loss and loss adjustment expense ratio	**68.2%**	67.4%	66.2%	66.2%
Underwriting expense ratio	**30.2**	30.7	29.9	30.6
Combined ratio	**98.4%**	98.1%	96.1%	96.8%

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 $2.10 in the second quarter of 2019 increased by 9% over diluted net income per share of $1.92 in the same period of 2018. Net income of $557 million in the second quarter of 2019 increased by 6% over net income of $524 million in the same period of 2018. The higher rate of increase in diluted net income per share reflected the impact of share repurchases in recent periods. The increase in income before income taxes primarily reflected the pre-tax impacts of (i) lower catastrophe losses and (ii) higher net investment income, partially offset by (iii) lower underwriting margins excluding catastrophe losses and prior year reserve development ("underlying underwriting margins") and (iv) lower net favorable prior year reserve development. Catastrophe losses in the second quarters of 2019 and 2018 were $367 million and $488 million, respectively. Net favorable prior year reserve development in the second quarters of 2019 and 2018 was $123 million and $186 million, respectively. Underlying underwriting margins in the second quarter of 2019 were lower in both Personal Insurance and Business Insurance and were slightly higher in Bond & Specialty Insurance compared to the same period of 2018. Income tax expense in the second quarter of 2019 was slightly higher than in the same period of 2018, reflecting the impact of the increase in income before income taxes in the second quarter of 2019, largely offset by a higher tax benefit in the second quarter of 2019 related to employee equity compensation plans.

Diluted net income per share of $5.08 in the first six months of 2019 increased by 17% over diluted net income per share of $4.35 in the same period of 2018. Net income of $1.35 billion in the first six months of 2019 increased by 13% over net income of $1.19 billion in the same period of 2018. The higher rate of increase in diluted net income per share reflected the impact of share repurchases in recent periods. The increase in income before income taxes primarily reflected the pre-tax impacts of (i) lower catastrophe losses, (ii) higher net realized investment gains and (iii) higher net investment income, partially offset by (iv) lower net favorable prior year reserve development. Catastrophe losses in the first six months of 2019 and 2018 were $560 million and $842 million, respectively. Net favorable prior year reserve development in the first six months of 2019 and 2018 was $174 million and $336 million, respectively. Income tax expense in the first six months of 2019 was higher than in the same period of 2018, reflecting the impacts of the increase in income before income taxes in the first six months of 2019 and lower tax expense in the first six months of 2018 due to a reduction in the liability for uncertain tax positions (unrecognized tax benefits).

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 six months ended June 30, 2019 and 2018, 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 second quarter of 2019 were $6.99 billion, $293 million or 4% higher than in the same period of 2018. Earned premiums in the first six months of 2019 were $13.84 billion, $611 million or 5% higher than in the same period of 2018. In Business Insurance, earned premiums in both the second quarter and first six months of 2019 increased by 4% over the same periods of 2018. In Bond & Specialty Insurance, earned premiums in both the second quarter and first six months of 2019 increased by 5% over the same periods of 2018. In Personal Insurance, earned premiums in both the second quarter and first six months of 2019 increased by 5% over the same periods of 2018. Factors contributing to the increases 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 June 30,		Six Months Ended June 30,	
(dollars in millions)	2019	2018	2019	2018
Average investments [1]	**$ 74,370**	$ 72,618	**$ 74,197**	$ 72,569
Pre-tax net investment income	**648**	595	**1,230**	1,198
After-tax net investment income	**548**	507	**1,044**	1,020
Average pre-tax yield [2]	**3.5%**	3.3%	**3.3%**	3.3%
Average after-tax yield [2]	**2.9%**	2.8%	**2.8%**	2.8%

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

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

Net investment income in the second quarter of 2019 was $648 million, $53 million or 9% higher than in the same period of 2018. Net investment income in the first six months of 2019 was $1.23 billion, $32 million or 3% higher than in the same period of 2018. Net investment income from fixed maturity investments in the second quarter and first six months of 2019 was $514 million and $1.03 billion, respectively, $25 million and $55 million higher, respectively, than in the same periods of 2018. The increases in both periods of 2019 primarily resulted from higher long-term reinvestment rates available in the market and a higher average level of fixed maturity investments. Net investment income from short-term securities in the second quarter and first six months of 2019 was $27 million and $55 million, respectively, $6 million and $15 million higher, respectively, than in the same periods of 2018. The increases primarily resulted from higher short-term interest rates. Net investment income generated by the Company's remaining investment portfolios in the second quarter of 2019 was $118 million, $24 million higher than in the same period of

2018, primarily resulting from higher returns from private equity limited partnerships. Net investment income generated by the Company's remaining investment portfolios in the first six months of 2019 was $171 million, $36 million lower than in the same period of 2018, primarily resulting from lower returns from private equity limited partnerships and real estate partnerships.

Fee Income
Fee income in the second quarter and first six months of 2019 was $116 million and $225 million, respectively, $4 million and $10 million higher, respectively, than in the same periods of 2018. The National Accounts market in Business Insurance is the primary source of the Company's fee-based business and is 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 June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Other-than-temporary impairment losses	**$ (1)**	$ (1)	**$ (2)**	$ (1)
Net realized investment gains on equity securities still held	**6**	16	**45**	3
Other net realized investment gains, including from sales	**20**	21	**35**	23
Total	**$ 25**	$ 36	**$ 78**	$ 25

Other Revenues
Other revenues in the second quarters and first six months of 2019 and 2018 included installment premium charges and revenues from Simply Business.

Claims and Expenses

Claims and Claim Adjustment Expenses
Claims and claim adjustment expenses in the second quarter of 2019 were $4.82 billion, $259 million or 6% higher than in the same period of 2018, primarily reflecting the impacts of (i) higher business volumes, (ii) higher non-catastrophe weather-related losses, (iii) loss cost trends, (iv) lower net favorable prior year reserve development, (v) higher loss estimates in the general liability product line for primary and excess coverages and in the commercial automobile product line, including the re-estimation of losses incurred in the first quarter of 2019, partially offset by (vi) lower catastrophe losses and (vii) a lower level of domestic large losses, primarily fire-related. Catastrophe losses in the second quarter of 2019 primarily resulted from wind storms in several regions of the United States. Catastrophe losses in the second quarter of 2018 primarily resulted from wind and hail storms in several regions of the United States.

Claims and claim adjustment expenses in the first six months of 2019 were $9.26 billion, $405 million or 5% higher than in the same period of 2018, primarily reflecting the impacts of (i) higher business volumes, (ii) loss cost trends, (iii) lower net favorable prior year reserve development, (iv) higher non-catastrophe weather-related losses, (v) higher loss estimates in the general liability product line for primary and excess coverages and in the commercial automobile product line and (vi) a small number of large losses in the International business in the first quarter of 2019, partially offset by (vii) lower catastrophe losses and (viii) a lower level of domestic large losses, primarily fire-related. Catastrophe losses in the first six months of 2019 and 2018 included the second quarter events described above, as well as winter storms and wind storms in several regions of the United States in the first quarter of 2019, and winter storms in the eastern United States, a wind and hail storm in the southern United States and mudslides in California in the first quarter of 2018.

Factors contributing to net favorable prior year reserve development during the second quarters and first six months of 2019 and 2018 are discussed in more detail in note 6 of notes to the unaudited consolidated financial statements.

Table of Contents

Significant Catastrophe Losses

The following table presents the amount of losses recorded by the Company for significant catastrophes that occurred in the three months and six months ended June 30, 2019 and 2018, the amount of net unfavorable (favorable) prior year reserve development recognized in the three months and six months ended June 30, 2019 and 2018 for significant catastrophes that occurred in 2018 and 2017, and the estimate of ultimate losses for those catastrophes at June 30, 2019 and December 31, 2018. For purposes of the table, a significant catastrophe is an event for which the Company estimates its ultimate losses will be $100 million or more after reinsurance and before taxes. The Company's threshold for disclosing catastrophes is primarily determined at the reportable segment level and for 2019 ranged from approximately $19 million to $30 million of losses before reinsurance and taxes. For the Company’s definition of a catastrophe, refer to “Part II—Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations— Consolidated Overview” in the Company’s 2018 Annual Report.

	Losses Incurred/Unfavorable (Favorable) Prior Year Reserve Development					
	Three Months Ended June 30,		Six Months Ended June 30,		Estimated Ultimate Losses	
(in millions, pre-tax and net of reinsurance)	2019	2018	2019	2018	June 30, 2019	December 31, 2018
2017						
PCS Serial Number:						
22 — Severe wind and hail storms	(1)	(2)	(2)	(2)	107	109
32 — Severe wind and hail storms	1	19	1	20	230	229
43 — Hurricane Harvey	(3)	(5)	(14)	(25)	216	230
44 — Hurricane Irma	1	(8)	(8)	(19)	151	159
48 — California wildfire — Tubbs fire	(9)	—	(6)	4	502	508
2018						
PCS Serial Number:						
15 — Winter storm	(4)	3	(4)	138	140	144
17 — Severe wind and hail storms	(1)	11	(3)	121	108	111
33 — Severe wind and hail storms	3	n/a	(2)	n/a	115	117
52 — Hurricane Florence	(7)	n/a	(10)	n/a	96	106
57 — Hurricane Michael	3	n/a	6	n/a	164	158
59 — California wildfire - Camp fire	—	n/a	(2)	n/a	332	334
60 — California wildfire - Woolsey fire	9	n/a	9	n/a	128	119
2019						
PCS Serial Number:						
33 — Severe wind storms	185	n/a	185	n/a	185	n/a

n/a: not applicable.

Amortization of Deferred Acquisition Costs
Amortization of deferred acquisition costs in the second quarter of 2019 was $1.13 billion, $53 million or 5% higher than in the same period of 2018. Amortization of deferred acquisition costs in the first six months of 2019 was $2.25 billion, $109 million or 5% higher than in the same period of 2018. Amortization of deferred acquisition costs is discussed in more detail in the segment discussions that follow.

General and Administrative Expenses
General and administrative expenses in the second quarter of 2019 were $1.13 billion, $12 million or 1% higher than in the same period of 2018. General and administrative expenses in the first six months of 2019 were $2.18 billion, comparable with the same period of 2018. General and administrative expenses are discussed in more detail in the segment discussions that follow.

Interest Expense
Interest expense in the second quarter and first six months of 2019 was $89 million and $177 million, respectively, compared with $90 million and $179 million, respectively, in the same periods of 2018.

Income Tax Expense
Income tax expense in the second quarter of 2019 was $108 million, $1 million or 1% higher than in the same period of 2018, primarily reflecting the impact of the $34 million increase in income before income taxes in the second quarter of 2019, largely offset by a higher tax benefit in the second quarter of 2019 related to employee equity compensation plans. Income tax expense in the first six months of 2019 was $279 million, $63 million or 29% higher than in the same period of 2018, primarily reflecting the impacts of the $223 million increase in income before income taxes in the first six months of 2019 and lower tax expense in the first six months of 2018 due to a reduction in the liability for uncertain tax positions.

The Company’s effective tax rate was 16% and 17% in the second quarters of 2019 and 2018, respectively. The Company's effective tax rate was 17% and 15% in the first six months of 2019 and 2018, respectively. The effective tax rates were lower than the statutory rate of 21% in both periods, primarily due to the impact of tax-exempt investment income on the calculation of the Company’s income tax provision.

Combined Ratio

The combined ratio of 98.4% in the second quarter of 2019 was 0.3 points higher than the combined ratio of 98.1% in the same period of 2018. The loss and loss adjustment expense ratio of 68.2% in the second quarter of 2019 was 0.8 points higher than the loss and loss adjustment expense ratio of 67.4% in the same period of 2018. The underwriting expense ratio of 30.2% for the second quarter of 2019 was 0.5 points lower than the underwriting expense ratio of 30.7% in the same period of 2018.

Catastrophe losses in the second quarters of 2019 and 2018 accounted for 5.3 points and 7.3 points, respectively, of the combined ratio. Net favorable prior year reserve development in the second quarters of 2019 and 2018 provided 1.8 points and 2.8 points of benefit, respectively, to the combined ratio. The combined ratio excluding prior year reserve development and catastrophe losses (“underlying combined ratio”) in the second quarter of 2019 was 1.3 points higher than the 2018 ratio on the same basis, primarily reflecting the impact of (i) higher non-catastrophe weather-related losses, (ii) higher loss estimates in the general liability product line for primary and excess coverages and in the commercial automobile product line, including the re-estimation of losses incurred in the first quarter of 2019 and (iii) the impact on earned premiums related to the Company's new catastrophe reinsurance treaty, partially offset by (iv) a lower level of domestic large losses, primarily fire-related, (v) earned pricing that exceeded loss cost trends in Agency Automobile and (vi) a lower underwriting expense ratio.

The combined ratio of 96.1% in the first six months of 2019 was 0.7 points lower than the combined ratio of 96.8% in the same period of 2018. The loss and loss adjustment expense ratio was 66.2% for the first six months of both 2019 and 2018. The underwriting expense ratio of 29.9% for the first six months of 2019 was 0.7 points lower than the underwriting expense ratio of 30.6% in the same period of 2018.

Catastrophe losses in the first six months of 2019 and 2018 accounted for 4.1 points and 6.3 points, respectively, of the combined ratio. Net favorable prior year reserve development in the first six months of 2019 and 2018 provided 1.3 points and 2.5 points of benefit, respectively, to the combined ratio. The underlying combined ratio in the first six months of 2019 was 0.3 points higher than the 2018 ratio on the same basis.

Written Premiums

Consolidated gross and net written premiums were as follows:

	Gross Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2019**	**2018**	**2019**	**2018**
Business Insurance	**$ 4,193**	$ 4,038	**$ 8,923**	$ 8,509
Bond & Specialty Insurance	**747**	674	**1,409**	1,312
Personal Insurance	**2,884**	2,717	**5,331**	5,026
Total	**$ 7,824**	$ 7,429	**$ 15,663**	$ 14,847

	Net Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2019**	**2018**	**2019**	**2018**
Business Insurance	**$ 3,874**	$ 3,781	**$ 8,037**	$ 7,775
Bond & Specialty Insurance	**710**	653	**1,297**	1,227
Personal Insurance	**2,866**	2,697	**5,173**	4,953
Total	**$ 7,450**	$ 7,131	**$ 14,507**	$ 13,955

Gross and net written premiums in second quarter and first six months of 2019 reflected growth in all segments. Gross written premiums in both the second quarter and first six months of 2019 increased by 5% over the same periods of 2018. Net written premiums in both the second quarter and first six months of 2019 increased by 4% over the same periods of 2018. Net written premium growth in the first six months of 2019 was impacted by ceded written premiums related to the new catastrophe reinsurance treaty entered into in the first quarter of 2019. Factors contributing to the increases in gross and net written premiums in each segment are discussed in more detail in the segment discussions that follow.

RESULTS OF OPERATIONS BY SEGMENT

Business Insurance

Results of Business Insurance were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions)	2019	2018	2019	2018
Revenues				
Earned premiums	**$ 3,783**	$ 3,641	**$ 7,525**	$ 7,209
Net investment income	**481**	440	**908**	886
Fee income	**111**	107	**215**	206
Other revenues	**30**	20	**73**	51
Total revenues	**4,405**	4,208	**8,721**	8,352
Total claims and expenses	**3,990**	3,746	**7,817**	7,368
Segment income before income taxes	**415**	462	**904**	984
Income tax expense	**64**	77	**139**	147
Segment income	**$ 351**	$ 385	**$ 765**	$ 837
Loss and loss adjustment expense ratio	**69.6%**	66.9%	**68.6%**	66.3%
Underwriting expense ratio	**31.5**	31.9	**31.0**	31.9
Combined ratio	**101.1%**	98.8%	**99.6%**	98.2%

Overview

Segment income in the second quarter of 2019 was $351 million, $34 million or 9% lower than segment income of $385 million in the same period of 2018. The decrease in segment income before income taxes primarily reflected the pre-tax impacts of (i) higher catastrophe losses, (ii) lower underlying underwriting margins and (iii) lower net favorable prior year reserve development, partially offset by (iv) higher net investment income. Catastrophe losses in the second quarters of 2019 and 2018 were $211 million and $168 million, respectively. Net favorable prior year reserve development in the second quarters of 2019 and 2018 was $71 million and $84 million, respectively. The lower underlying underwriting margins primarily reflected the impacts of (i) higher loss estimates in the general liability product line for primary and excess coverages and in the commercial automobile product line, including the re-estimation of losses incurred in the first quarter of 2019, (ii) higher non-catastrophe weather-related losses and (iii) the impact on earned premiums related to the Company's new catastrophe reinsurance treaty, partially offset by (iv) a lower level of domestic large losses, primarily fire-related and (v) higher business volumes. Income tax expense in the second quarter of 2019 was lower than in the same period of 2018, primarily reflecting the impact of the decrease in segment income before income taxes in the second quarter of 2019.

Segment income in the first six months of 2019 was $765 million, $72 million or 9% lower than segment income of $837 million in the same period of 2018. The decrease in segment income before income taxes primarily reflected the pre-tax impacts of (i) lower net favorable prior year reserve development, partially offset by (ii) higher net investment income. Catastrophe losses in the first six months of both 2019 and 2018 were $306 million. Net favorable prior year reserve development in the first six months of 2019 and 2018 was $50 million and $150 million, respectively. Income tax expense in the first six months of 2019 was lower than in the same period of 2018, primarily reflecting the impacts of (i) the decrease in segment income before income taxes in the first six months of 2019, partially offset by (ii) lower tax expense in the first six months of 2018 due to a reduction in the liability for uncertain tax positions.

Revenues

Earned Premiums
Earned premiums in the second quarter of 2019 were $3.78 billion, $142 million or 4% higher than in the same period of 2018. Earned premiums in the first six months of 2019 were $7.53 billion, $316 million or 4% higher than in the same period of 2018. The increase in 2019 primarily reflected the increase in net written premiums over the preceding twelve months. The increases in earned premiums in both periods of 2019 were reduced by the earned impact of the new catastrophe reinsurance treaty.

Net Investment Income
Net investment income in the second quarter of 2019 was $481 million, $41 million or 9% higher than in the same period of 2018. Net investment income in the first six months of 2019 was $908 million, $22 million or 2% higher than in the same period of 2018. Refer to the “Net Investment Income” section of the “Consolidated Results of Operations” discussion herein for a description of the factors contributing to the increases in the Company’s consolidated net investment income in the second quarter and first six months of 2019 compared with the same periods of 2018. In addition, refer to note 2 of notes to the consolidated financial statements in the Company’s 2018 Annual Report for a discussion of the Company’s net investment income allocation methodology.

Fee Income
National Accounts is the primary source of fee income due to revenue from its large deductible policies and service businesses, which include risk management, claims administration, loss control and risk management information services provided to third parties, as well as claims and policy management services to workers' compensation residual market pools. Fee income in the second quarter of 2019 was $111 million, $4 million or 4% higher than in the same period of 2018. Fee income in the first six months of 2019 was $215 million, $9 million or 4% higher than in the same period of 2018. The increases in both periods of 2019 reflected higher claim volume under administration associated with its service businesses.

Other Revenues
Other revenues in the second quarters and first six months of both 2019 and 2018 included installment premium charges and other policyholder service charges, as well as revenues from Simply Business. Other revenues in the second quarter of 2019 were $30 million, $10 million or 50% higher than in the same period of 2018. Other revenues in the first six months of 2019 were $73 million, $22 million or 43% higher than in the same period of 2018. The increases in both periods of 2019 primarily resulted from Simply Business revenue growth.

Claims and Expenses

Claims and Claim Adjustment Expenses
Claims and claim adjustment expenses in the second quarter of 2019 were $2.69 billion, $202 million or 8% higher than in the same period of 2018, primarily reflecting the impacts of (i) higher business volumes, (ii) loss cost trends, (iii) higher loss estimates in the general liability product line for primary and excess coverages and in the commercial automobile product line, including the re-estimation of losses incurred in the first quarter of 2019, (iv) higher catastrophe losses, (v) higher non-catastrophe weather-related losses and (vi) lower net favorable prior year reserve development, partially offset by (vii) a lower level of domestic large losses, primarily fire-related.

Claims and claim adjustment expenses in the first six months of 2019 were $5.27 billion, $390 million or 8% higher than in the same period of 2018, primarily reflecting the impacts of (i) higher business volumes, (ii) loss cost trends, (iii) lower net favorable prior year reserve development, (iv) higher loss estimates in the general liability product line for primary and excess coverages and in the commercial automobile product line, (v) a small number of large losses in the International business in the first quarter of 2019 and (vi) higher non-catastrophe weather-related losses, partially offset by (vii) a lower level of domestic large losses, primarily fire-related.

Factors contributing to net prior year reserve development during the second quarters and first six months of 2019 and 2018 are discussed in more detail in note 6 of notes to the unaudited consolidated financial statements.

Amortization of Deferred Acquisition Costs
Amortization of deferred acquisition costs in the second quarter of 2019 was $618 million, $30 million or 5% higher than in the same period of 2018. Amortization of deferred acquisition costs in the first six months of 2019 was $1.23 billion, $65 million or 6% higher than in the same period of 2018. The increases in both periods of 2019 were generally consistent with the increases in earned premiums.

General and Administrative Expenses
General and administrative expenses in the second quarter of 2019 were $686 million, $12 million or 2% higher than in the same period of 2018. General and administrative expenses in the first six months of 2019 were $1.32 billion, comparable with the same period of 2018.

Income Tax Expense
Income tax expense in the second quarter of 2019 was $64 million, $13 million, or 17% lower than in the same period of 2018, primarily reflecting the impact of the $47 million decrease in segment income before income taxes in the second quarter of 2019. Income tax in the first six months of 2019 was $139 million, $8 million or 5% lower than in the same period of 2018, primarily reflecting the impacts of (i) the $80 million decrease in segment income before income taxes, partially offset by (ii) lower tax expense in the first six months of 2018 due to a reduction in the liability for uncertain tax positions.

Combined Ratio

The combined ratio of 101.1% in the second quarter of 2019 was 2.3 points higher than the combined ratio of 98.8% in the same period of 2018. The loss and loss adjustment expense ratio of 69.6% in the second quarter of 2019 was 2.7 points higher than the loss and loss adjustment expense ratio of 66.9% in the same period of 2018. The underwriting expense ratio of 31.5% for the second quarter of 2019 was 0.4 points lower than the underwriting expense ratio of 31.9% in the same period of 2018.

Catastrophe losses in the second quarters of 2019 and 2018 accounted for 5.6 points and 4.6 points, respectively, of the combined ratio. Net favorable prior year reserve development in the second quarters of 2019 and 2018 provided 1.9 points and 2.3 points benefit, respectively, to the combined ratio. The underlying combined ratio in the second quarter of 2019 was 0.9 points higher than the 2018 ratio on the same basis, primarily reflecting the impacts of (i) higher loss estimates in the general liability product line for primary and excess coverages and in the commercial automobile product line, including the re-estimation of losses incurred in the first quarter of 2019, (ii) higher non-catastrophe weather-related losses and (iii) the impact on earned premiums related to the Company's new catastrophe reinsurance treaty, partially offset by (iv) a lower level of domestic large losses, primarily fire-related and (v) a lower underwriting expense ratio.

The combined ratio of 99.6% in the first six months of 2019 was 1.4 points higher than the combined ratio of 98.2% in the same period of 2018. The loss and loss adjustment expense ratio of 68.6% in the first six months of 2019 was 2.3 points higher than the loss and loss adjustment expense ratio of 66.3% in the same period of 2018. The underwriting expense ratio of 31.0% for the first six months of 2019 was 0.9 points lower than the underwriting expense ratio of 31.9% in the same period of 2018.

Catastrophe losses in the first six months of 2019 and 2018 accounted for 4.1 points and 4.3 points, respectively, of the combined ratio. Net favorable prior year reserve development in the first six months of 2019 and 2018 provided 0.7 points and 2.1 points of benefit, respectively, to the combined ratio. The underlying combined ratio in the first six months of 2019 was 0.2 points higher than the 2018 ratio on the same basis.

Written Premiums
Business Insurance’s gross and net written premiums by market were as follows:

	Gross Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2019	2018	2019	2018
Domestic:				
Select Accounts	**$ 759**	$ 731	**$ 1,572**	$ 1,513
Middle Market	**2,139**	2,076	**4,675**	4,435
National Accounts	**327**	340	**834**	861
National Property and Other	**627**	543	**1,136**	1,006
Total Domestic	**3,852**	3,690	**8,217**	7,815
International	**341**	348	**706**	694
Total Business Insurance	**$ 4,193**	$ 4,038	**$ 8,923**	$ 8,509

	Net Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2019	2018	2019	2018
Domestic:				
Select Accounts	**$ 756**	$ 729	**$ 1,541**	$ 1,502
Middle Market	**2,009**	1,985	**4,419**	4,247
National Accounts	**223**	231	**527**	540
National Property and Other	**588**	518	**975**	898
Total Domestic	**3,576**	3,463	**7,462**	7,187
International	**298**	318	**575**	588
Total Business Insurance	**$ 3,874**	$ 3,781	**$ 8,037**	$ 7,775

Gross written premiums in the second quarter and first six months of 2019 increased by 4% and 5%, respectively, over the same periods of 2018. Net written premiums in the second quarter and first six months of 2019 increased by 2% and 3%, respectively, over the same periods of 2018. Net written premium growth in the first six months of 2019 was impacted by the Company's new catastrophe reinsurance treaty entered into in the first quarter of 2019.

Select Accounts. Net written premiums of $756 million in the second quarter of 2019 increased by 4% over the same period of 2018. Net written premiums of $1.54 billion in the first six months of 2019 increased by 3% over the same period of 2018. Net written premiums in the first six months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the second quarter and first six months of 2019. Renewal premium changes in the second quarter and first six months of 2019 remained positive and were comparable with the same periods of 2018. New business premiums in the second quarter and first six months of 2019 decreased slightly from the same periods of 2018.

Middle Market. Net written premiums of $2.01 billion in the second quarter of 2019 increased by 1% over the same period of 2018. Net written premiums of $4.42 billion in the first six months of 2019 increased by 4% over the same period of 2018. Net written premiums in the first six months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the second quarter and first six months of 2019. Renewal premium changes in the second quarter and first six months of 2019 remained positive and were higher than in the same periods of 2018. New business premiums in the second quarter and first six months of 2019 decreased from the same periods of 2018.

National Accounts. Net written premiums of $223 million in the second quarter of 2019 decreased by 3% from the same period of 2018. Net written premiums of $527 million in the first six months of 2019 decreased by 2% from the same period of 2018. Business retention rates remained strong in the second quarter and first six months of 2019. Renewal premium changes in the second quarter and first six months of 2019 were slightly negative, compared with positive in the same periods of 2018. New business premiums in the second quarter of 2019 decreased from the same period of 2018. New business premiums in the first six months of 2019 increased slightly from the same period of 2018.

National Property and Other. Net written premiums of $588 million in the second quarter of 2019 increased by 14% over the same period of 2018. Net written premiums of $975 million in the first six months of 2019 increased by 9% over the same period of 2018. Net written premiums in the first six months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the second quarter and first six months of 2019. Renewal premium changes in the second quarter and first six months of 2019 remained positive and were higher than in the same periods of 2018. New business premiums in the second quarter and first six months of 2019 increased over the same periods of 2018.

International. Net written premiums of $298 million in the second quarter of 2019 decreased by 6% from the same period of 2018. Net written premiums of $575 million in the first six months of 2019 decreased by 2% from the same period of 2018. The decreases in the second quarter and first six months of 2019 were primarily driven by the impact of changes in foreign currency exchange rates, as well as decreases in the Company's operations at Lloyd's.

Bond & Specialty Insurance

Results of Bond & Specialty Insurance were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions)	2019	2018	2019	2018
Revenues				
Earned premiums	**$ 632**	$ 601	**$ 1,238**	$ 1,183
Net investment income	**58**	57	**114**	115
Other revenues	**6**	5	**12**	11
Total revenues	**696**	663	**1,364**	1,309
Total claims and expenses	**476**	404	**971**	842
Segment income before income taxes	**220**	259	**393**	467
Income tax expense	**46**	55	**81**	90
Segment income	**$ 174**	$ 204	**$ 312**	$ 377
Loss and loss adjustment expense ratio	**37.4%**	28.8%	**40.3%**	32.6%
Underwriting expense ratio	**37.5**	37.7	**37.6**	37.9
Combined ratio	**74.9%**	66.5%	**77.9%**	70.5%

Overview

Segment income in the second quarter of 2019 was $174 million, $30 million or 15% lower than segment income of $204 million in the same period of 2018. The decrease in segment income before income taxes primarily reflected the pre-tax impact of lower net favorable prior year reserve development. Net favorable prior year reserve development in the second quarters of 2019 and 2018 was $39 million and $89 million, respectively. No catastrophe losses were incurred in the second quarter of 2019, compared with $5 million in the same period of 2018. Income tax expense in the second quarter of 2019 was lower than in the same period of 2018, primarily reflecting the impact of the decrease in segment income before income taxes in the second quarter of 2019.

Segment income in the first six months of 2019 was $312 million, $65 million or 17% lower than segment income of $377 million in the same period of 2018. The decrease in segment income before income taxes primarily reflected the pre-tax impact of lower net favorable prior year reserve development. Net favorable prior year reserve development in the first six months of 2019 and 2018 was $42 million and $124 million, respectively. Catastrophe losses in the first six months of 2019 and 2018 were $3 million and $5 million, respectively. Income tax expense in the first six months of 2019 was lower than in the same period of 2018, primarily reflecting the impact of the decrease in segment income before income taxes in the first six months of 2019, partially offset by the impact of lower tax expense in the first six months of 2018 due to a reduction in the liability for uncertain tax positions.

Revenues

Earned Premiums

Earned premiums in the second quarter of 2019 were $632 million, $31 million or 5% higher than in the same period of 2018. Earned premiums in the first six months of 2019 were $1.24 billion, $55 million or 5% higher than in the same period of 2018. The increases in both periods of 2019 primarily reflected the increase in net written premiums over the preceding twelve months.

Net Investment Income

Net investment income in the second quarter of 2019 was $58 million, $1 million or 2% higher than in the same period of 2018. Net investment income in the first six months of 2019 of was $114 million, $1 million or 1% lower than in the same period of 2018. Included in Bond & Specialty Insurance are certain legal entities whose invested assets and related net investment income are reported exclusively in this segment and not allocated among all business segments. Refer to the “Net Investment Income” section of “Consolidated Results of Operations” herein for a discussion of the increases in the Company’s consolidated net investment income in the second quarter and first six months of 2019 compared with the same periods of 2018. In addition, refer to note 2 of notes to the consolidated financial statements in the Company’s 2018 Annual Report for a discussion of the Company’s net investment income allocation methodology.

Claims and Expenses

Claims and Claim Adjustment Expenses
Claims and claim adjustment expenses in the second quarter of 2019 were $238 million, $63 million or 36% higher than in the same period of 2018, primarily reflecting the impacts of (i) lower net favorable prior year reserve development and (ii) higher business volumes.

Claims and claim adjustment expenses in the first six months of 2019 were $504 million, $113 million or 29% higher than in the same period of 2018, primarily reflecting the impacts of (i) lower net favorable prior year reserve development and (ii) higher business volumes.

Factors contributing to net favorable prior year reserve development during the second quarter and first six months of 2019 and 2018 are discussed in more detail in note 6 of notes to the unaudited consolidated financial statements.

Amortization of Deferred Acquisition Costs
Amortization of deferred acquisition costs in the second quarter of 2019 was $118 million, $5 million or 4% higher than in the same period of 2018. Amortization of deferred acquisition costs in the first six months of 2019 was $230 million, $10 million or 5% higher than in the same period of 2018. The increases in both periods of 2019 were generally consistent with the increases in earned premiums.

General and Administrative Expenses
General and administrative expenses in the second quarter of 2019 were $120 million, $4 million or 3% higher than in the same period of 2018. General and administrative expenses in the first six months of 2019 were $237 million, $6 million or 3% higher than in the same period of 2018. The increases in both periods of 2019 primarily reflected the impact of higher business volumes.

Income Tax Expense
Income tax expense in the second quarter of 2019 was $46 million, $9 million or 16% lower than in the same period of 2018, primarily reflecting the impact of the $39 million decrease in segment income before income taxes in the second quarter of 2019. Income tax expense in the first six months of 2019 was $81 million, $9 million or 10% lower than in the same period of 2018, primarily reflecting the impact of the $74 million decrease in segment income before income taxes in the first six months of 2019, partially offset by the impact of lower tax expense in the first six months of 2018 due to a reduction in the liability for uncertain tax positions.

Combined Ratio

The combined ratio of 74.9% in the second quarter of 2019 was 8.4 points higher than the combined ratio of 66.5% in the same period of 2018. The loss and loss adjustment expense ratio of 37.4% in the second quarter of 2019 was 8.6 points higher than the loss and loss adjustment expense ratio of 28.8% in the same period of 2018. The underwriting expense ratio of 37.5% in the second quarter of 2019 was 0.2 points lower than the underwriting expense ratio of 37.7% in the same period of 2018.

Net favorable prior year reserve development in the second quarters of 2019 and 2018 provided 6.2 points and 14.8 points of benefit, respectively, to the combined ratio. Catastrophe losses in the second quarters of 2019 and 2018 accounted for 0.1 points and 0.8 points, respectively, of the combined ratio. The underlying combined ratio in the second quarter of 2019 was 0.5 points higher than the 2018 ratio on the same basis.

The combined ratio of 77.9% in the first six months of 2019 was 7.4 points higher than the combined ratio of 70.5% in the same period of 2018. The loss and loss adjustment expense ratio of 40.3% in the first six months of 2019 was 7.7 points higher than the loss and loss adjustment expense ratio of 32.6% in the same period of 2018. The underwriting expense ratio of 37.6% in the first six months of 2019 was 0.3 points lower than the underwriting expense ratio of 37.9% in the same period of 2018.

Net favorable prior year reserve development in the first six months of 2019 and 2018 provided 3.4 points and 10.5 points of benefit, respectively, to the combined ratio. Catastrophe losses in the first six months of 2019 and 2018 accounted for 0.2 points and 0.4 points, respectively, of the combined ratio. The underlying combined ratio in the first six months of 2019 was 0.5 points higher than the 2018 ratio on the same basis.

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

	Gross Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2019**	**2018**	**2019**	**2018**
Domestic:				
Management Liability	**$ 432**	$ 378	**$ 821**	$ 742
Surety	**251**	240	**473**	458
Total Domestic	**683**	618	**1,294**	1,200
International	**64**	56	**115**	112
Total Bond & Specialty Insurance	**$ 747**	$ 674	**$ 1,409**	$ 1,312

	Net Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2019**	**2018**	**2019**	**2018**
Domestic:				
Management Liability	**$ 403**	$ 362	**$ 770**	$ 710
Surety	**244**	235	**428**	420
Total Domestic	**647**	597	**1,198**	1,130
International	**63**	56	**99**	97
Total Bond & Specialty Insurance	**$ 710**	$ 653	**$ 1,297**	$ 1,227

Gross and net written premiums in the second quarter of 2019 increased by 11% and 9%, respectively, over the same period of 2018. Gross written premiums in the first six months of 2019 increased by 7% over the same period of 2018. Net written premiums increased at a lower rate of 6% in the first six months of 2019, reflecting higher ceded written premiums for several reinsurance treaties, including those related to the new catastrophe reinsurance treaty.

Domestic. Net written premiums of $647 million and $1.20 billion in the second quarter and first six months of 2019, respectively, increased by 8% and 6%, respectively, over the same periods of 2018. Excluding the surety line of business, for which the following are not relevant measures, business retention rates remained strong in the second quarter and first six months of 2019. Renewal premium changes in the second quarter and first six months of 2019 remained positive and were comparable with the same periods of 2018. New business premiums in the second quarter and first six months of 2019 increased over the same periods of 2018.

International. Net written premiums of $63 million and $99 million in the second quarter and first six months of 2019, respectively, increased by 13% and 2%, respectively, over the same periods of 2018. The increases in both periods of 2019 were primarily driven by increases in Canada and the United Kingdom, partially offset by the impact of changes in foreign currency exchange rates.

Personal Insurance

Results of Personal Insurance were as follows:

(dollars in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenues				
Earned premiums	**$ 2,573**	$ 2,453	**$ 5,080**	$ 4,840
Net investment income	**109**	98	**208**	197
Fee income	**5**	5	**10**	9
Other revenues	**21**	14	**43**	31
Total revenues	**2,708**	2,570	**5,341**	5,077
Total claims and expenses	**2,606**	2,599	**4,892**	4,949
Segment income (loss) before income taxes	**102**	(29)	**449**	128
Income tax expense (benefit)	**14**	(12)	**83**	16
Segment income (loss)	**$ 88**	$ (17)	**$ 366**	$ 112
Loss and loss adjustment expense ratio	**73.7%**	77.6%	**68.8%**	74.2%
Underwriting expense ratio	**26.5**	27.3	**26.4**	27.1
Combined ratio	**100.2%**	104.9%	**95.2%**	101.3%

Overview

Segment income in the second quarter of 2019 was $88 million, compared with a segment loss of $(17) million in the same period of 2018, primarily reflecting the pre-tax impacts of (i) lower catastrophe losses and (ii) higher net investment income, partially offset by (iii) lower underlying underwriting margins. Catastrophe losses in the second quarters of 2019 and 2018 were $156 million and $315 million, respectively. Net favorable prior year reserve development in each of the second quarters of 2019 and 2018 was $13 million. The lower underlying underwriting margins primarily resulted from the impacts of (i) higher non-catastrophe weather-related losses in Agency Homeowners and Other and (ii) the impact on earned premiums related to the Company's new catastrophe reinsurance treaty, mostly impacting Agency Homeowners and Other, partially offset by (iii) earned pricing that exceeded loss cost trends in Agency Automobile and (iv) higher business volumes. The segment incurred income tax expense in the second quarter of 2019 compared to an income tax benefit in the same period of 2018.

Segment income in the first six months of 2019 was $366 million, $254 million higher than segment income of $112 million in the same period of 2018. The increase in segment income before income taxes primarily reflected the pre-tax impacts of (i) lower catastrophe losses and (ii) higher net favorable prior year reserve development. Catastrophe losses in the first six months of 2019 and 2018 were $251 million and $531 million, respectively. Net favorable prior year reserve development in the first six months of 2019 and 2018 was $82 million and $62 million, respectively. Income tax expense in the first six months of 2019 was higher than in the same period of 2018, primarily reflecting the impact of the increase in segment income before income taxes.

Revenues

Earned Premiums

Earned premiums in the second quarter of 2019 were $2.57 billion, $120 million or 5% higher than in the same period of 2018. Earned premiums in the first six months of 2019 were $5.08 billion, $240 million or 5% higher than in the same period of 2018. The increases in both periods of 2019 primarily reflected the increase in net written premiums over the preceding twelve months. The increases in earned premiums in both periods of 2019 were reduced by the earned impact of the new catastrophe reinsurance treaty.

Net Investment Income
Net investment income in the second quarter of 2019 was $109 million, $11 million or 11% higher than in the same period of 2018. Net investment income in the first six months of 2019 was $208 million, $11 million or 6% higher than in the same period of 2018. Refer to the "Net Investment Income" section of the "Consolidated Results of Operations" discussion herein for a description of the factors contributing to the increase in the Company's consolidated net investment income in the second quarter and first six months of 2019 compared with the same periods of 2018. In addition, refer to note 2 of notes to the consolidated financial statements in the Company's 2018 Annual Report for a discussion of the Company's net investment income allocation methodology.

Other Revenues
Other revenues in the second quarters and first six months of 2019 and 2018 primarily consisted of installment premium charges.

Claims and Expenses

Claims and Claim Adjustment Expenses
Claims and claim adjustment expenses in the second quarter of 2019 were $1.90 billion, comparable with the same period of 2018, primarily reflecting the impacts of (i) higher non-catastrophe weather-related losses in Agency Homeowners and Other, (ii) higher business volumes and (iii) loss cost trends, largely offset by (iv) lower catastrophe losses.

Claims and claim adjustment expenses in the first six months of 2019 were $3.49 billion, $98 million or 3% lower than in the same period of 2018, primarily reflecting the impacts of (i) lower catastrophe losses and (ii) higher net favorable prior year reserve development, partially offset by (iii) higher non-catastrophe weather-related losses in Agency Homeowners and Other, (iv) higher business volumes and (v) loss cost trends.

Factors contributing to net favorable prior year reserve development during the first six months of 2019 and 2018 are discussed in more detail in note 6 of notes to the unaudited consolidated financial statements.

Amortization of Deferred Acquisition Costs
Amortization of deferred acquisition costs in the second quarter of 2019 was $398 million, $18 million or 5% higher than in the same period of 2018. Amortization of deferred acquisition costs in the first six months of 2019 was $788 million, $34 million or 5% higher than in the same period of 2018. The increases in both periods of 2019 were consistent with the increases in earned premiums.

General and Administrative Expenses
General and administrative expenses in the second quarter of 2019 were $311 million, $5 million or 2% lower than in the same period of 2018. General and administrative expenses in the first six months of 2019 were $611 million, $7 million or 1% higher than in the same period of 2018.

Income Tax Expense (Benefit)
Income tax expense in the second quarter of 2019 was $14 million, compared with an income tax benefit of $(12) million in same period of 2018, primarily reflecting the impact of the $131 million increase in segment income before income taxes. Income tax expense in the first six months of 2019 was $83 million, $67 million higher than in the same period of 2018, primarily reflecting the impact of the $321 million increase in segment income before income taxes.

Combined Ratio

The combined ratio of 100.2% in the second quarter of 2019 was 4.7 points lower than the combined ratio of 104.9% in the same period of 2018. The loss and loss adjustment expense ratio of 73.7% in the second quarter of 2019 was 3.9 points lower than the loss and loss adjustment expense ratio of 77.6% in the same period of 2018. The underwriting expense ratio of 26.5% for the second quarter of 2019 was 0.8 points lower than the underwriting expense ratio of 27.3% in the same period of 2018.

Catastrophe losses in the second quarters of 2019 and 2018 accounted for 6.1 points and 12.8 points, respectively, of the combined ratio. Net favorable prior year reserve development in each of the second quarters of 2019 and 2018 provided 0.5 points of benefit to the combined ratio. The underlying combined ratio in the second quarter of 2019 was 2.0 points higher than the 2018 ratio on the same basis, primarily reflecting (i) higher non-catastrophe weather-related losses in Agency Homeowners and Other and (ii) the impact on earned premiums related to the new catastrophe reinsurance treaty, mostly impacting Agency Homeowners and

Other, partially offset by the impact of (iii) earned pricing that exceeded loss cost trends in Agency Automobile and (iv) a lower underwriting expense ratio.

The combined ratio of 95.2% in the first six months of 2019 was 6.1 points lower than the combined ratio of 101.3% in the same period of 2018. The loss and loss adjustment expense ratio of 68.8% in the first six months of 2019 was 5.4 points lower than the loss and loss adjustment expense ratio of 74.2% in the same period of 2018. The underwriting expense ratio of 26.4% in the first six months of 2019 was 0.7 points lower than the underwriting expense ratio of 27.1% in the same period of 2018.

Catastrophe losses in the first six months of 2019 and 2018 accounted for 4.9 points and 11.0 points, respectively, of the combined ratio. Net favorable prior year reserve development in the first six months of 2019 and 2018 provided 1.6 points and 1.3 points of benefit, respectively, to the combined ratio. The underlying combined ratio in the first six months of 2019 was 0.3 points higher than the 2018 ratio on the same basis.

Written Premiums

Personal Insurance’s gross and net written premiums were as follows:

	Gross Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2019	2018	2019	2018
Domestic:				
Agency:				
Automobile	**$ 1,304**	$ 1,265	**$ 2,544**	$ 2,457
Homeowners and Other	**1,268**	1,148	**2,222**	2,021
Total Agency	**2,572**	2,413	**4,766**	4,478
Direct-to-Consumer	**103**	98	**201**	191
Total Domestic	**2,675**	2,511	**4,967**	4,669
International	**209**	206	**364**	357
Total Personal Insurance	**$ 2,884**	$ 2,717	**$ 5,331**	$ 5,026

	Net Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2019	2018	2019	2018
Domestic:				
Agency:				
Automobile	**$ 1,300**	$ 1,258	**$ 2,524**	$ 2,441
Homeowners and Other	**1,258**	1,137	**2,095**	1,969
Total Agency	**2,558**	2,395	**4,619**	4,410
Direct-to-Consumer	**103**	99	**198**	191
Total Domestic	**2,661**	2,494	**4,817**	4,601
International	**205**	203	**356**	352
Total Personal Insurance	**$ 2,866**	$ 2,697	**$ 5,173**	$ 4,953

Domestic Agency Written Premiums

Personal Insurance’s domestic Agency business comprises business written through agents, brokers and other intermediaries.

Domestic Agency gross and net written premiums in the second quarter of 2019 both increased by 7% over the same period of 2018. Domestic Agency gross written premiums in the first six months of 2019 increased by 6% over the same period of 2018.

Domestic Agency net written premiums increased at a lower rate of 5% in the first six months of 2019, primarily reflecting the impact of the new catastrophe reinsurance treaty entered into in the first quarter of 2019.

Domestic Agency Automobile net written premiums of $1.30 billion and $2.52 billion in the second quarter and first six months of 2019, respectively, both increased by 3% over the same periods of 2018. Net written premiums in the first six months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the second quarter and first six months of 2019. Renewal premium changes in the second quarter and first six months of 2019 remained positive but were lower than in the same periods of 2018. New business premiums in the second quarter and first six months of 2019 increased over the same periods of 2018.

Domestic Agency Homeowners and Other net written premiums of $1.26 billion and $2.10 billion in the second quarter and first six months of 2019, respectively, increased by 11% and 6%, respectively, over the same periods of 2018. Net written premiums in the first six months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the second quarter and first six months of 2019. Renewal premium changes in the second quarter and first six months of 2019 remained positive and were higher than in the same periods of 2018. New business premiums in the second quarter and first six months of 2019 increased over the same periods of 2018.

For its Domestic Agency business, the Personal Insurance segment had approximately 7.3 million and 7.0 million active policies at June 30, 2019 and 2018, respectively.

Direct-to-Consumer and International Written Premiums

Direct-to-Consumer net written premiums of $103 million and $198 million in the second quarter and first six months of 2019, respectively, both increased by 4% over the same periods of 2018, primarily reflecting growth in homeowners and other. Net written premiums in the first six months of 2019 were reduced by the new catastrophe reinsurance treaty.

International net written premiums of $205 million and $356 million in the second quarter and first six months of 2019, respectively, both increased by 1% over the same periods of 2018, primarily driven by growth in automobile net written premiums, partially offset by the impact of changes in foreign currency exchange rates.

For its international and direct-to-consumer business, Personal Insurance had approximately 901,000 and 895,000 active policies at June 30, 2019 and 2018, respectively.

Interest Expense and Other

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2019**	**2018**	**2019**	**2018**
Income (loss)	**$ (76)**	$ (78)	**$ (151)**	$ (154)

The Income (loss) for Interest Expense and Other in the second quarters of 2019 and 2018 was $(76) million and $(78) million, respectively. Pre-tax interest expense in the second quarters of 2019 and 2018 was $89 million and $90 million respectively. After-tax interest expense in the second quarters of 2019 and 2018 was $70 million and $71 million, respectively. The Income (loss) for Interest Expense and Other in the first six months of 2019 and 2018 was $(151) million and $(154) million, respectively. Pre-tax interest expense in the first six months of 2019 and 2018 was $177 million and $179 million, respectively. After-tax interest expense in the first six months of 2019 and 2018 was $140 million and $141 million, respectively.

ASBESTOS CLAIMS AND LITIGATION

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

The Company continues to be involved in disputes, including litigation, with a number of policyholders, some of whom are in bankruptcy over coverage for asbestos-related claims. Many coverage disputes with policyholders are only resolved through settlement agreements. Because many policyholders make exaggerated demands, it is difficult to predict the outcome of settlement negotiations. Settlements involving bankrupt policyholders may include extensive releases which are favorable to the Company, but which could result in settlements for larger amounts than originally anticipated. Although the Company has seen a reduction in the overall risk associated with these disputes, it remains difficult to predict the ultimate cost of these claims. As in the past, the Company will continue to pursue settlement opportunities.

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

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

The Company’s quarterly asbestos reserve reviews include an analysis of exposure and claim payment patterns by policyholder category, as well as recent settlements, policyholder bankruptcies, judicial rulings and legislative actions. The Company also analyzes developing payment patterns among policyholders in the home office and field office category and the assumed reinsurance and other category as well as projected reinsurance billings and recoveries. In addition, the Company reviews its historical gross and net loss and expense paid experience, year-by-year, to assess any emerging trends, fluctuations, or characteristics suggested by the aggregate paid activity. Conventional actuarial methods are not utilized to establish asbestos reserves and the Company’s evaluations have not resulted in a reliable method to determine a meaningful average asbestos defense or indemnity payment. Over the past decade, the property and casualty insurance industry, including the Company, has experienced net unfavorable prior year reserve development with regard to asbestos reserves, but the Company believes that over that period there has been a reduction in the volatility associated with the Company’s overall asbestos exposure as the overall asbestos environment has evolved from one dominated by exposure to significant litigation risks, particularly coverage disputes relating to policyholders in bankruptcy who were asserting that their claims were not subject to the aggregate limits contained in their policies, to an environment primarily driven by a frequency of litigation related to individuals with mesothelioma. The Company’s overall view of the current underlying asbestos environment is essentially unchanged from recent periods and there remains a high degree of uncertainty with respect to future exposure to asbestos claims.

Net asbestos paid loss and loss expenses in the first six months of 2019 and 2018 were $102 million and $98 million, respectively. Net asbestos reserves were $1.18 billion at both June 30, 2019 and June 30, 2018.

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

(at and for the six months ended June 30, in millions)	2019	2018
Beginning reserves:		
Gross	**$ 1,608**	$ 1,538
Ceded	**(327)**	(257)
Net	**1,281**	1,281
Incurred losses and loss expenses:		
Gross	**—**	—
Ceded	**—**	—
Net	**—**	—
Paid loss and loss expenses:		
Gross	**134**	130
Ceded	**(32)**	(32)
Net	**102**	98
Foreign exchange and other:		
Gross	**—**	—
Ceded	**—**	—
Net	**—**	—
Ending reserves:		
Gross	**1,474**	1,408
Ceded	**(295)**	(225)
Net	**$ 1,179**	$ 1,183

See “—Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.”

ENVIRONMENTAL CLAIMS AND LITIGATION

The Company has received and continues to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. These claims are mainly brought pursuant to various state or federal statutes that require a liable party to undertake or pay for environmental remediation. Liability under these statutes may be joint and several with other responsible parties.

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

The resolution of environmental exposures by the Company generally occurs through settlements with policyholders as opposed to claimants. Generally, the Company strives to extinguish any obligations it may have under any policy issued to the policyholder for past, present and future environmental liabilities and extinguish any pending coverage litigation dispute with the policyholder. This form of settlement is commonly referred to as a “buy-back” of policies for future environmental liability. In addition, many of the agreements have also extinguished any insurance obligation which the Company may have for other claims, including, but not limited to, asbestos and other cumulative injury claims. The Company and its policyholders may also agree to settlements which only extinguish any liability arising from known specified sites or claims. In many instances, these agreements also include indemnities and hold harmless provisions to protect the Company. The Company’s general purpose in executing these agreements is to reduce the Company’s potential environmental exposure and eliminate the risks presented by coverage litigation with the policyholder and related costs.

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

The Company continues to receive notices from policyholders tendering claims for the first time, frequently under policies issued prior to the mid-1980s. These policyholders continue to present smaller exposures, have fewer sites and are lower tier defendants. Further, in many instances, clean-up costs have been reduced because regulatory agencies are willing to accept risk-based site analyses and more efficient clean-up technologies. Over the past several years, the Company has experienced generally favorable trends in the number of new policyholders tendering environmental claims for the first time and in the number of pending declaratory judgment actions relating to environmental matters. However, the degree to which those favorable trends have continued has been less than anticipated. In addition, reserve development on existing environmental claims as well as the costs associated with coverage litigation on environmental matters have been greater than anticipated, driven by claims and legal developments in a limited number of jurisdictions. As a result of these factors, the Company increased its net environmental reserves by $60 million and $55 million in the second quarters of 2019 and 2018, respectively.

Net environmental paid loss and loss expenses in the first six months of 2019 and 2018 were $35 million and $26 million, respectively. At June 30, 2019, approximately 95% of the net environmental reserve (approximately $342 million) was carried in a bulk reserve and included unresolved environmental claims, incurred but not reported environmental claims and the anticipated cost of coverage litigation disputes relating to these claims. The bulk reserve the Company carries is established and adjusted based upon the aggregate volume of in-process environmental claims and the Company’s experience in resolving those claims. The balance, approximately 5% of the net environmental reserve (approximately $17 million), consists of case reserves.

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

(at and for the six months ended June 30, in millions)	2019	2018
Beginning reserves:		
Gross	**$ 358**	$ 373
Ceded	**(24)**	(13)
Net	**334**	360
Incurred losses and loss expenses:		
Gross	**67**	71
Ceded	**(7)**	(16)
Net	**60**	55
Paid loss and loss expenses:		
Gross	**36**	30
Ceded	**(1)**	(4)
Net	**35**	26
Foreign exchange and other:		
Gross	**(1)**	(1)
Ceded	**1**	—
Net	**—**	(1)
Ending reserves:		
Gross	**388**	413
Ceded	**(29)**	(25)
Net	**$ 359**	$ 388

UNCERTAINTY REGARDING ADEQUACY OF ASBESTOS AND ENVIRONMENTAL RESERVES

As a result of the processes and procedures discussed above, management believes that the reserves carried for asbestos and environmental claims are appropriately established based upon known facts, current law and management’s judgment. However, the uncertainties surrounding the final resolution of these claims continue, and it is difficult to determine the ultimate exposure for asbestos and environmental claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. Changes in the legal, regulatory and legislative environment may impact the resolution of asbestos and environmental claims and result in adverse loss reserve development. The emergence of a greater number of asbestos or environmental claims beyond that which is anticipated may result in adverse loss reserve development. Changes in applicable legislation and future court and regulatory decisions and interpretations, including the outcome of legal challenges to legislative and/or judicial reforms establishing medical criteria for the pursuit of asbestos claims could affect the settlement of asbestos and environmental claims. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos and environmental reserves, the Company continues to study the implications of these and other developments.

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

INVESTMENT PORTFOLIO

The Company’s invested assets at June 30, 2019 were $75.50 billion, of which 94% was invested in fixed maturity and short-term investments, 1% in equity securities, 1% in real estate investments and 4% in other investments. Because the primary purpose of the investment portfolio is to fund future claims payments, the Company employs a conservative investment philosophy. A significant majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

The carrying value of the Company’s fixed maturity portfolio at June 30, 2019 was $67.17 billion. The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company’s insurance and debt obligations. The weighted average credit quality of the Company’s fixed maturity portfolio, both including and excluding U.S. Treasury securities, was “Aa2” at both June 30, 2019 and December 31, 2018. Below investment grade securities represented 2.3% of the total fixed maturity investment portfolio at both June 30, 2019 and December 31, 2018. The weighted average effective duration of fixed maturities and short-term securities was 4.2 (4.4 excluding short-term securities) at June 30, 2019 and 4.5 (4.7 excluding short-term securities) at December 31, 2018.

Obligations of States, Municipalities and Political Subdivisions

The Company’s fixed maturity investment portfolio at June 30, 2019 and December 31, 2018 included $29.73 billion and $28.61 billion, respectively, of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). The municipal bond portfolio is diversified across the United States, the District of Columbia and Puerto Rico and includes general obligation and revenue bonds issued by states, cities, counties, school districts and similar issuers. Included in the municipal bond portfolio at June 30, 2019 and December 31, 2018 were $2.33 billion and $2.85 billion, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities and obligations of U.S. government and government agencies and authorities. These trusts were created to fund the payment of principal and interest due under the bonds. The irrevocable trusts are verified as to their sufficiency by an independent verification agent of the underwriter, issuer or trustee. All of the Company’s holdings of securities issued by Puerto Rico and related entities have been pre-refunded and therefore are defeased by U.S. Treasury securities.

The Company bases its investment decision on the underlying credit characteristics of the municipal security. The weighted average credit rating of the municipal bond portfolio was "Aaa/Aa1" at both June 30, 2019 and December 31, 2018.

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

The Company’s fixed maturity investment portfolio at June 30, 2019 and December 31, 2018 included $2.93 billion and $2.57 billion, respectively, of residential mortgage-backed securities, which include pass-through securities and collateralized mortgage obligations (CMOs), all of which are subject to prepayment risk (either shortening or lengthening of duration). While prepayment risk for securities and its effect on income cannot be fully controlled, particularly when interest rates move dramatically, the Company’s investment strategy generally favors securities that reduce this risk within expected interest rate ranges. Included in the totals at June 30, 2019 and December 31, 2018 were $1.18 billion and $859 million, respectively, of GNMA, FNMA, FHLMC (excluding FHA project loans) and Canadian government guaranteed residential mortgage-backed pass-through securities classified as available for sale. Also included in those totals were residential CMOs classified as available for sale with a fair value of $1.74 billion and $1.71 billion at June 30, 2019 and December 31, 2018, respectively. Approximately 51% and 52% of the Company’s CMO holdings at June 30, 2019 and December 31, 2018, respectively, were guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC. The weighted average credit rating of the $854 million and $828 million of non-guaranteed CMO holdings at both June 30, 2019 and December 31, 2018 was "Aa1." The weighted average credit rating of all of the above securities was "Aaa/Aa1" at both June 30, 2019 and December 31, 2018. For further discussion regarding the Company’s investments in residential CMOs, see “Part II—Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Investment Portfolio” in the Company’s 2018 Annual Report.

Equity Securities, Real Estate and Short-Term Investments

See note 1 of notes to the consolidated financial statements in the Company’s 2018 Annual Report for further information about these invested asset classes.

Other Investments

The Company also invests in private equity limited partnerships, hedge funds and real estate partnerships and joint ventures. Also included in other investments are non-public common and preferred equities and derivatives. These asset classes have historically provided a higher return than fixed maturities but are subject to more volatility. At June 30, 2019 and December 31, 2018, the carrying value of the Company's other investments was $3.47 billion and $3.56 billion, respectively.

CATASTROPHE REINSURANCE COVERAGE

The Company's catastrophe reinsurance coverage is discussed in the "Catastrophe Reinsurance" section of "Part I - Item 1 - Business" in the Company's 2018 Annual Report. Except as discussed below, there have been no material changes to the Company's catastrophe reinsurance coverage from that reported in the Company's 2018 Annual Report.

Catastrophe Bonds. With respect to the Company's indemnity reinsurance agreement with Long Point Re III Ltd., the attachment point and maximum limit were reset as required annually to adjust the expected loss of the layer within a predetermined range. For the period May 25, 2019 through and including May 24, 2020, the Company will be entitled to begin recovering amounts under this reinsurance agreement if the covered losses in the covered area for a single occurrence reach an initial attachment amount of $1.79 billion. The full $500 million coverage amount is available until such covered losses reach a maximum $2.29 billion.

Other Catastrophe Reinsurance Treaties. Catastrophe reinsurance treaties that renewed on July 1, 2019 were as follows:

- *Northeast Property Catastrophe Excess-of-Loss Reinsurance Treaty.* This treaty provides up to $600 million part of $850 million of coverage, subject to a $2.25 billion retention (i.e. for every dollar of loss between $2.25 billion and $3.10 billion this treaty provides 71 cents of coverage), for losses arising from a single occurrence, subject to one reinstatement. Coverage is provided on an all perils basis, including but not limited to hurricanes, tornadoes, hail storms, earthquakes and winter storm and/or freeze losses (coverage is included for terrorism events in limited circumstances, but nuclear, biological and radiological attacks are entirely excluded) from Virginia to Maine for the period July 1, 2019 through and including June 30, 2020. Losses from a covered event anywhere in the United States, Canada, the Caribbean and Mexico and waters contiguous thereto may be used to satisfy the retention. Recoveries under catastrophe bonds (if any) would be first applied to reduce losses subject to this treaty.

- *Middle Market Earthquake Catastrophe Excess-of-Loss Reinsurance Treaty*. This treaty provides for up to $225 million part of $250 million of coverage, subject to a $100 million retention (i.e. for every dollar of loss between $100 million and $350 million this treaty provides 90 cents of coverage), for losses arising from an earthquake, including fire following and sprinkler leakage incurred under policies written by Technology, Public Sector Services and Commercial Accounts in Business Insurance for the period July 1, 2019 through and including June 30, 2020.

- *Canadian Property Catastrophe Excess-of-Loss Reinsurance Treaty.* This treaty provides coverage for 50% of losses in excess of C$100 million (US$76 million at June 30, 2019), up to C$200 million (US$153 million at June 30, 2019) and for 100% of losses in excess of C$200 million (US$153 million at June 30, 2019), up to C$600 million (US$458 million at June 30, 2019) for the accumulation of net property losses arising out of one occurrence on business written by the Company's Canadian businesses for the period July 1, 2019 through and including June 30, 2020. The treaty covers all property written by the Company's Canadian businesses, including, but not limited to, habitational property, commercial property, inland marine, ocean marine and auto physical damages exposures.

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

REINSURANCE RECOVERABLES

For a description of the Company's reinsurance recoverables, refer to "Part II—Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Reinsurance Recoverables" in the Company's 2018 Annual Report.

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

(in millions)	June 30, 2019	December 31, 2018
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	**$ 3,410**	$ 3,485
Allowance for uncollectible reinsurance	**(107)**	(110)
Net reinsurance recoverables	**3,303**	3,375
Mandatory pools and associations	**1,959**	2,005
Structured settlements	**2,972**	2,990
Total reinsurance recoverables	**$ 8,234**	$ 8,370

Net reinsurance recoverables at June 30, 2019 decreased by $72 million from December 31, 2018, primarily reflecting the impacts of cash collections in the first six months of 2019.

OUTLOOK

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

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

Overall, the Company expects retention levels (the amount of expiring premium that renews, before the impact of renewal premium changes) will remain strong by historical standards during the remainder of 2019 and into 2020. In Business Insurance, the Company expects that domestic renewal premium changes during the remainder of 2019 will remain positive and will be higher than the levels attained in the same period of 2018, and that domestic renewal premium changes into 2020 will remain positive and will be slightly higher than the levels attained in the same period of 2019. In Bond & Specialty Insurance, the Company expects that renewal premium changes with respect to domestic management liability business during the remainder of 2019 will remain positive and will be higher than the levels attained in the same period of 2018, and that domestic renewal premium changes into 2020 will remain positive and will be broadly consistent with the levels attained in the same period of 2019. In Personal Insurance, the Company expects that domestic Agency Automobile renewal premium changes during the remainder of 2019 and into 2020 will remain positive but will be lower than the levels attained in the same periods of 2018 and 2019. The Company expects that domestic Agency Homeowners and Other renewal premium changes during the remainder of 2019 and into 2020 will remain positive and will be higher than the levels attained in the same periods of 2018 and 2019. The need for state regulatory approval for changes to personal and many commercial property and casualty insurance prices, as well as competitive market conditions, may impact the timing and extent of renewal premium changes. With regard to the Company's international business, the Company expects that renewal premium changes during the remainder of 2019 in aggregate will remain positive and will be higher than the levels attained in the same period of 2018, and that renewal premium changes into 2020 in aggregate will remain positive and will be broadly consistent with the levels attained in the same period of 2019. Given the relatively smaller amount of premium that the Company generates from outside the United States and the transactional nature of some of those markets, particularly Lloyd’s, international renewal premium changes can be more volatile and therefore difficult to predict.

Property and casualty insurance market conditions are expected to remain competitive during the remainder of 2019 and into 2020 for new business. In each of the Company’s business segments, new business generally has less of an impact on underwriting profitability than renewal business, given the volume of new business relative to renewal business. However, in periods of meaningful increases in new business, despite its positive impact on underwriting gains over time, the impact of higher new business levels may negatively impact the combined ratio for a period of time.

Economic conditions in the United States and elsewhere could change, due to a variety of factors, including the political and regulatory environment, changes to fiscal stimulus programs, inflation or deflation (including the impact of rapid changes in wages and/or commodity prices), the imposition of tariffs or other barriers to international trade, fluctuations in interest rates and foreign currency exchange rates, high levels of global debt after an extended period of low interest rates, the United Kingdom’s withdrawal from the European Union, a shutdown of the U.S. government, the failure by the U.S. government to raise the debt ceiling, changes to the U.S. Federal budget and further potential changes in tax laws in the United States or modification of the Affordable Care Act. The resulting changes in levels of economic activity could positively or negatively impact exposure changes at renewal and the Company’s ability to write business at acceptable rates. Additionally, changes in levels of economic activity could positively or negatively impact audit premium adjustments, policy endorsements and mid-term cancellations after policies are written. All of the foregoing, in turn, could positively or negatively impact net written premiums during the remainder of 2019 and into 2020, and because earned premiums are a function of net written premiums, earned premiums could be impacted on a lagging basis.

Underwriting Gain/Loss. The Company’s underwriting gain/loss can be significantly impacted by catastrophe losses and net favorable or unfavorable prior year reserve development, as well as underlying underwriting margins. Underlying underwriting margins can be impacted by a number of factors, including variability in non-catastrophe weather, large loss and other loss activity; changes in current period loss estimates resulting from prior period loss development; changes in business mix; changes in reinsurance coverages and/or costs; premium adjustments; and variability in expenses and assessments.

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

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

It is possible that changes in economic conditions could lead to higher or lower inflation than the Company had anticipated, which could in turn lead to an increase or decrease in the Company’s loss costs and the need to strengthen or reduce claims and claim adjustment expense reserves. These impacts of inflation on loss costs and claims and claim adjustment expense reserves could be more pronounced for those lines of business that require a relatively longer period of time to finalize and settle claims for a given accident year and, accordingly, are relatively more inflation sensitive. For a further discussion, see “Part I-Item 1A-Risk Factors-If actual claims exceed our claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal, regulatory and economic environments in which the Company operates, our financial results could be materially and adversely affected” in the Company’s 2018 Annual Report.

In Business Insurance, the Company expects underlying underwriting margins during the remainder of 2019 and into 2020 in aggregate will be higher than in the same periods of 2018 and 2019, and the underlying combined ratio during the remainder of 2019 and into 2020 in aggregate will be lower than in the same periods of 2018 and 2019, assuming improved results in the Company's international business and lower and more normal levels of non-catastrophe weather-related losses. The outlook for Business Insurance also reflects the timing impact of higher loss estimates in the commercial automobile product line that were recognized in the fourth quarter of 2018.

In Bond & Specialty Insurance, the Company expects that underlying underwriting margins and the underlying combined ratio during the remainder of 2019 and into 2020 in aggregate will be broadly consistent with the same periods of 2018 and 2019.

In Personal Insurance, the Company expects underlying underwriting margins during the remainder of 2019 and into 2020 in aggregate will be higher than in the same periods of 2018 and 2019, and the underlying combined ratio during the remainder of 2019 and into 2020 in aggregate will be lower than in the same periods of 2018 and 2019, assuming non-catastrophe weather-related losses return to lower and more normal levels. In Agency Automobile, with the exception of the fourth quarter of 2019, the Company expects that underlying underwriting margins and the underlying combined ratio during the remainder of 2019 and into 2020 in aggregate will be broadly consistent with the same periods of 2018 and 2019. In the fourth quarter of 2019, the

Company expects that underlying underwriting margins in Agency Automobile will be lower and the underlying combined ratio will be higher than in the same period of 2018 due to a low level of loss activity in the fourth quarter of 2018. In Agency Homeowners and Other, the Company expects underlying underwriting margins during the remainder of 2019 and into 2020 in aggregate will be higher than in the same periods of 2018 and 2019, and the underlying combined ratio during the remainder of 2019 and into 2020 in aggregate will be lower than in the same periods of 2018 and 2019, assuming non-catastrophe weather-related losses return to lower and more normal levels.

Investment Portfolio. The Company expects to continue to focus its investment strategy on maintaining a high-quality investment portfolio and a relatively short average effective duration. The weighted average effective duration of fixed maturities and short-term securities was 4.2 (4.4 excluding short-term securities) at June 30, 2019. From time to time, the Company enters into short positions in U.S. Treasury futures contracts to manage the duration of its fixed maturity portfolio. At June 30, 2019, the Company had no open U.S. Treasury futures contracts. The Company continually evaluates its investment alternatives and mix. Currently, the majority of the Company's investments are comprised of a widely diversified portfolio of high-quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

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

Net investment income is a material contributor to the Company's results of operations. Based on the impact of slightly higher levels of fixed income investments (fixed maturity and short-term investments), partially offset by expected lower reinvestment yields on fixed income investments, the Company expects that during the remainder of 2019 after-tax net investment income from those portfolios will be approximately $10 million to $15 million higher on a quarterly basis as compared to the corresponding quarters of 2018. For the first two quarters of 2020, after-tax net investment income from those portfolios will be broadly consistent on a quarterly basis as compared to the corresponding quarters of 2019. The impact of future market conditions on net investment income from the Company's remaining investment portfolios during the remainder of 2019 and into 2020 is hard to predict. If general economic conditions and/or investment market conditions change, the Company could experience an increase or decrease in net investment income and/or significant realized investment gains or losses (including impairments) compared with the same periods of 2018 and 2019.

The Company had a net pre-tax unrealized investment gain of $2.39 billion ($1.88 billion after-tax) in its fixed maturity investment portfolio at June 30, 2019. While the Company does not attempt to predict future interest rate movements, a rising interest rate environment would reduce the market value of fixed maturity investments and, therefore, reduce shareholders' equity, and a declining interest rate environment would have the opposite effects. The Company's investment portfolio has benefited from certain tax exemptions (primarily those related to interest from municipal bonds) and certain other tax laws, including, but not limited to, those governing dividends-received deductions and tax credits (such as foreign tax credits). Changes in these laws could adversely impact the value of the Company's investment portfolio. See "Changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate could adversely impact us" included in "Part I—Item 1A—Risk Factors" in the Company's 2018 Annual Report.

For further discussion of the Company's investment portfolio, see "Investment Portfolio." For a discussion of the risks to the Company's business during or following a financial market disruption and risks to the Company's investment portfolio, see the risk factors entitled "During or following a period of financial market disruption or an economic downturn, our business could be materially and adversely affected" and "Our investment portfolio is subject to credit and interest rate risk, and may suffer reduced or low returns or material realized or unrealized losses" included in "Part I—Item 1A—Risk Factors" in the Company's 2018 Annual Report. For a discussion of the risks to the Company's investments from foreign currency exchange rate fluctuations, see the risk factor entitled "We are also subject to a number of additional risks associated with our business outside the United States" included in "Part I—Item 1A—Risk Factors" in the Company's 2018 Annual Report and see "Part II—Item 7A—Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Exchange Rate Risk" in the Company's 2018 Annual Report.

Capital Position. The Company believes it has a strong capital position and, as part of its ongoing efforts to create shareholder value, expects to continue to return capital not needed to support its business operations to its shareholders. The Company expects that, generally over time, the combination of dividends to common shareholders and common share repurchases will likely not exceed net income. In addition, the timing and actual number of shares to be repurchased in the future will depend on a variety of additional factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, changes in levels of written premiums, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. For information regarding the Company's common share repurchases in 2019, see "Liquidity and Capital Resources."

As a result of the Company's business outside of the United States, primarily in Canada, the United Kingdom (including Lloyd's), the Republic of Ireland and Brazil, the Company's capital is also subject to the effects of changes in foreign currency exchange rates (including with respect to the valuation of the Company's foreign investments and interests in joint ventures). For example, strengthening of the U.S. dollar in comparison to other currencies could result in a reduction of shareholders' equity. For additional discussion of the Company's foreign exchange market risk exposure, see "Part II—Item 7A—Quantitative and Qualitative Disclosures About Market Risk" in the Company's 2018 Annual Report.

Many of the statements in this "Outlook" section are forward-looking statements, which are subject to risks and uncertainties that are often difficult to predict and beyond the Company's control. Actual results could differ materially from those expressed or implied by such forward-looking statements. Further, such forward-looking statements speak only as of the date of this report and the Company undertakes no obligation to update them. See "—Forward Looking Statements." For a discussion of potential risks and uncertainties that could impact the Company's results of operations or financial position, see "Part I—Item 1A—Risk Factors" in the Company's 2018 Annual Report and "Critical Accounting Estimates."

LIQUIDITY AND CAPITAL RESOURCES

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

Operating Company Liquidity. The liquidity requirements of the Company's insurance subsidiaries are met primarily by funds generated from premiums, fees, income received on investments and investment maturities. For further discussion of operating company liquidity, see "Part II—Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in the Company's 2018 Annual Report.

Holding Company Liquidity. TRV's liquidity requirements primarily include shareholder dividends, debt servicing, common share repurchases and, from time to time, contributions to its qualified domestic pension plan. At June 30, 2019, TRV held total cash and short-term invested assets in the United States aggregating $1.46 billion and having a weighted average maturity of 47 days. TRV has established a holding company liquidity target equal to its estimated annual pre-tax interest expense and common shareholder dividends (currently approximately $1.19 billion). TRV's holding company liquidity of $1.46 billion at June 30, 2019 exceeded this target and it is the opinion of the Company's management that these assets are sufficient to meet TRV's current liquidity requirements.

TRV is not dependent on dividends or other forms of repatriation from its foreign operations to support its liquidity needs. The undistributed earnings of the Company's foreign operations are intended to be permanently reinvested in those operations, and such earnings were not material to the Company's financial position or liquidity at June 30, 2019.

TRV has a shelf registration statement filed with the Securities and Exchange Commission (SEC) that expires on June 10, 2022 which permits it to issue securities from time to time. TRV also has a $1.0 billion line of credit facility with a syndicate of financial institutions that expires on June 4, 2023. At June 30, 2019, the Company had $100 million of commercial paper outstanding. TRV is not reliant on its commercial paper program to meet its operating cash flow needs.

The Company utilized uncollateralized letters of credit issued by major banks with an aggregate limit of approximately $338 million to provide a portion of the capital needed to support its obligations at Lloyd's at June 30, 2019. If uncollateralized letters of credit are not available at a reasonable price or at all in the future, the Company can collateralize these letters of credit or may have to seek alternative means of supporting its obligations at Lloyd's, which could include utilizing holding company funds on hand.

Operating Activities

Net cash provided by operating activities in the first six months of 2019 and 2018 was $1.79 billion and $1.70 billion, respectively. The increase in cash flows in the first six months of 2019 primarily reflected higher levels of cash received for (i) premiums and (ii) net investment income, partially offset by the impacts of higher levels of payments for (iii) claims and claim adjustment expenses, (iv) commission expenses and (v) income taxes.

Investing Activities

Net cash used in investing activities in the first six months of 2019 and 2018 was $701 million and $457 million, respectively. The Company's consolidated total investments at June 30, 2019 increased by $3.22 billion, or 4% over year-end 2018, primarily reflecting the impacts of (i) net unrealized gains on investments at June 30, 2019 as compared with net unrealized losses on investments at December 31, 2018, as a result of decreases in market interest rates during the first six months of 2019 and (ii) net cash flows provided by operating activities, partially offset by (iii) common share repurchases and (iv) dividends paid to shareholders.

Financing Activities

Net cash used in financing activities in the first six months of 2019 and 2018 was $1.05 billion and $1.17 billion, respectively. The totals in both periods primarily reflected common share repurchases, the payment of debt and dividends paid to shareholders, partially offset by the issuance of debt and the net proceeds from employee stock option exercises. Common share repurchases in the first six months of 2019 and 2018 were $797 million and $751 million, respectively.

Dividends. Dividends paid to shareholders were $419 million and $404 million in the first six months of 2019 and 2018, respectively. The declaration and payment of future dividends to holders of the Company's common stock will be at the discretion of the Company's Board of Directors and will depend upon many factors, including the Company's financial position, earnings, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints and other factors as the Board of Directors deems relevant. Dividends will be paid by the Company only if declared by its Board of Directors out of funds legally available, subject to any other restrictions that may be applicable to the Company. On July 23, 2019, the Company announced that it declared a regular quarterly dividend of $0.82 per share, payable September 30, 2019 to shareholders of record on September 10, 2019.

Share Repurchase Authorization. The Company's Board of Directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. During the three months and six months ended June 30, 2019, the Company repurchased 2.6 million and 5.5 million shares under its share repurchase authorization, for a total cost of $375 million and $750 million, respectively. The average cost per share repurchased was $145.87 and $137.15. At June 30, 2019, the Company had $2.54 billion of capacity remaining under the share repurchase authorization.

Capital Structure. The following table summarizes the components of the Company's capital structure at June 30, 2019 and December 31, 2018.

(in millions)	June 30, 2019	December 31, 2018
Debt:		
Short-term	**$ 100**	$ 600
Long-term	**6,504**	6,004
Net unamortized fair value adjustments and debt issuance costs	**(46)**	(40)
Total debt	**6,558**	6,564
Shareholders' equity:		
Common stock and retained earnings, less treasury stock	**25,115**	24,753
Accumulated other comprehensive income (loss)	**206**	(1,859)
Total shareholders' equity	**25,321**	22,894
Total capitalization	**$ 31,879**	$ 29,458

On March 4, 2019, the Company issued $500 million aggregate principal amount of 4.10% senior notes that will mature on March 4, 2049. The net proceeds were used to repay the Company's $500 million, 5.90% senior notes on June 2, 2019. See note 8 of notes to the unaudited consolidated financial statements for further discussion regarding the terms of the senior notes.

The following table provides a reconciliation of total capitalization presented in the foregoing table to total capitalization excluding net unrealized gains (losses) on investments, net of taxes, included in shareholders' equity.

(dollars in millions)	June 30, 2019	December 31, 2018
Total capitalization	**$ 31,879**	$ 29,458
Less: net unrealized gains (losses) on investments, net of taxes, included in shareholders' equity	**1,878**	(113)
Total capitalization excluding net unrealized gains (losses) on investments, net of taxes, included in shareholders' equity	**$ 30,001**	$ 29,571
Debt-to-total capital ratio	**20.6%**	22.3%
Debt-to-total capital ratio excluding net unrealized gains (losses) on investments, net of taxes, included in shareholders' equity	**21.9%**	22.2%

The debt-to-total capital ratio excluding net unrealized gains (losses) on investments, net of taxes, included in shareholders' equity, is calculated by dividing (a) debt by (b) total capitalization excluding net unrealized gains and losses on investments, net of taxes, included in shareholders' equity. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company's management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company's financial leverage position. The Company's ratio of debt-to-total capital excluding after-tax net unrealized investment gains (losses) included in shareholders' equity of 21.9% at June 30, 2019 was within the Company's target range of 15% to 25%.

RATINGS

Ratings are an important factor in assessing the Company's competitive position in the insurance industry. The Company receives ratings from the following major rating agencies: A.M. Best Company (A.M. Best), Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's (S&P). The following rating agency actions were taken with respect to the Company since April 18, 2019, the date on which the Company's Form 10-Q for the quarter ended March 31, 2019 was filed with the SEC. For additional discussion of ratings, see "Part I—Item 1—Business—Ratings" in the Company's 2018 Annual Report.

- On May 20, 2019, Fitch affirmed all ratings of the Company. The outlook for all ratings is stable.

- On June 26, 2019, S&P assigned a financial strength rating of "A+" to the Company's newly established insurance subsidiary in the Republic of Ireland, Travelers Insurance Designated Activity Company. The outlook for this rating is stable.

CRITICAL ACCOUNTING ESTIMATES

For a description of the Company's critical accounting estimates, refer to "Part II—Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates" in the Company's 2018 Annual Report. The Company considers its most significant accounting estimates to be those applied to claims and claim adjustment expense reserves and related reinsurance recoverables, investment valuation and impairments, and goodwill and other intangible assets impairments. Except as shown in the table below, there have been no material changes to the Company's critical accounting estimates since December 31, 2018.

Claims and Claim Adjustment Expense Reserves

The table below displays the Company's gross claims and claim adjustment expense reserves by product line. Because the establishment of claims and claim adjustment expense reserves is an inherently uncertain process involving estimates, currently established claims and claim adjustment expense reserves may change. The Company reflects adjustments to the reserves in the results of operations in the period the estimates are changed. These changes in estimates could result in income statement charges that could be material to the Company's operating results in future periods. In particular, a portion of the Company's gross claims and claim adjustment expense reserves (totaling $1.86 billion at June 30, 2019) are for asbestos and environmental claims and related litigation. Asbestos and environmental reserves are included in the General liability, Commercial multi-peril and International and other lines in the summary table below. While the ongoing review of asbestos and environmental claims and associated liabilities considers the inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of the Company's management, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could be material to the Company's future operating results. Asbestos and environmental reserves are discussed separately; see "Asbestos Claims and Litigation", "Environmental Claims and Litigation" and "Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves" in this report.

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

	June 30, 2019			December 31, 2018		
(in millions)	Case	IBNR	Total	Case	IBNR	Total
General liability	**$ 4,852**	**$ 7,100**	**$ 11,952**	$ 4,780	$ 7,092	$ 11,872
Commercial property	**1,103**	**390**	**1,493**	1,157	297	1,454
Commercial multi-peril	**2,047**	**1,989**	**4,036**	2,089	1,886	3,975
Commercial automobile	**2,451**	**1,699**	**4,150**	2,339	1,661	4,000
Workers' compensation	**10,234**	**9,250**	**19,484**	10,299	9,216	19,515
Fidelity and surety	**266**	**294**	**560**	280	288	568
Personal automobile	**1,999**	**1,389**	**3,388**	2,038	1,400	3,438
Homeowners and personal—other	**867**	**946**	**1,813**	942	884	1,826
International and other	**2,594**	**1,589**	**4,183**	2,574	1,431	4,005
Property-casualty	**26,413**	**24,646**	**51,059**	26,498	24,155	50,653
Accident and health	**14**	**—**	**14**	15	—	15
Claims and claim adjustment expense reserves	**$ 26,427**	**$ 24,646**	**$ 51,073**	$ 26,513	$ 24,155	$ 50,668

The $405 million increase in gross claims and claim adjustment expense reserves since December 31, 2018 primarily reflected the impacts of (i) higher volumes of insured exposures and loss cost trends for the current accident year and (ii) catastrophe losses in the first six months of 2019, largely offset by the impacts of (iii) payments related to catastrophe losses incurred in 2018 and (iv) net favorable prior year reserve development.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See note 1 of notes to the unaudited consolidated financial statements contained in this quarterly report and in the Company's 2018 Annual Report for a discussion of recently issued accounting pronouncements.

FORWARD-LOOKING STATEMENTS

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

- the Company’s outlook and its future results of operations and financial condition (including, among other things, anticipated premium volume, premium rates, renewal premium changes, underwriting margins and underlying underwriting margins, net and core income, investment income and performance, loss costs, return on equity, core return on equity and expected current returns and combined ratios and underlying combined ratios);
- share repurchase plans;
- future pension plan contributions;
- the sufficiency of the Company’s asbestos and other reserves;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the cost and availability of reinsurance coverage;
- catastrophe losses;
- the impact of investment (including changes in interest rates), economic (including inflation, changes in tax law, changes in commodity prices and fluctuations in foreign currency exchange rates) and underwriting market conditions;
- strategic and operational initiatives to improve profitability and competitiveness;
- the Company's competitive advantages;
- new product offerings;
- the impact of new or potential regulations imposed or to be imposed by the United States or other nations, including tariffs or other barriers to international trade; and
- the impact of legislation enacted or to be enacted by states allowing victims of sexual abuse to file or proceed with claims that otherwise would have been time-barred.

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

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

- catastrophe losses could materially and adversely affect the Company’s results of operations, its financial position and/or liquidity, and could adversely impact the Company’s ratings, the Company’s ability to raise capital and the availability and cost of reinsurance;
- if actual claims exceed the Company’s claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal, regulatory and economic environments in which the Company operates, the Company’s financial results could be materially and adversely affected;
- during or following a period of financial market disruption or an economic downturn, the Company’s business could be materially and adversely affected;
- the Company’s investment portfolio is subject to credit and interest rate risk, and may suffer reduced or low returns or material realized or unrealized losses;
- the Company’s business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation;
- the intense competition that the Company faces, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which the Company operates, could harm its ability to maintain or increase its business volumes and its profitability;
- disruptions to the Company’s relationships with its independent agents and brokers or the Company’s inability to manage effectively a changing distribution landscape could adversely affect the Company;
- the Company is exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances;
- the effects of emerging claim and coverage issues on the Company’s business are uncertain;

FORWARD-LOOKING STATEMENTS, Continued

- the Company may not be able to collect all amounts due to it from reinsurers, reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all and the Company is exposed to credit risk related to its structured settlements;
- the Company is also exposed to credit risk in certain of its insurance operations and with respect to certain guarantee or indemnification arrangements that it has with third parties;
- within the United States, the Company’s businesses are heavily regulated by the states in which it conducts business, including licensing, market conduct and financial supervision, and changes in regulation may reduce the Company’s profitability and limit its growth;
- a downgrade in the Company’s claims-paying and financial strength ratings could adversely impact the Company’s business volumes, adversely impact the Company’s ability to access the capital markets and increase the Company’s borrowing costs;
- the inability of the Company’s insurance subsidiaries to pay dividends to the Company’s holding company in sufficient amounts would harm the Company’s ability to meet its obligations, pay future shareholder dividends and/or make future share repurchases;
- the Company’s efforts to develop new products, expand in targeted markets or improve business processes and workflows may not be successful and may create enhanced risks;
- the Company may be adversely affected if its pricing and capital models provide materially different indications than actual results;
- the Company’s business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology, particularly as its business processes become more digital;
- if the Company experiences difficulties with technology, data and network security (including as a result of cyber attacks), outsourcing relationships or cloud-based technology, the Company’s ability to conduct its business could be negatively impacted;
- the Company is also subject to a number of additional risks associated with its business outside the United States, such as foreign currency exchange fluctuations (including with respect to the valuation of the Company's foreign investments and interests in joint ventures) and restrictive regulations as well as the risks and uncertainties associated with the United Kingdom's withdrawal from the European Union;
- regulatory changes outside of the United States, including in Canada, the United Kingdom, the Republic of Ireland and the European Union, could adversely impact the Company’s results of operations and limit its growth;
- loss of or significant restrictions on the use of particular types of underwriting criteria, such as credit scoring, or other data or methodologies, in the pricing and underwriting of the Company’s products could reduce the Company’s future profitability;
- acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences;
- the Company could be adversely affected if its controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective;
- the Company’s businesses may be adversely affected if it is unable to hire and retain qualified employees;
- intellectual property is important to the Company’s business, and the Company may be unable to protect and enforce its own intellectual property or the Company may be subject to claims for infringing the intellectual property of others;
- changes in federal regulation could impose significant burdens on the Company and otherwise adversely impact the Company’s results;
- changes in U.S. tax laws or in the tax laws of other jurisdictions where the Company operates could adversely impact the Company; and
- the Company’s share repurchase plans depend on a variety of factors, including the Company’s financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company’s desired ratings from independent rating agencies, changes in levels of written premiums, funding of the Company’s qualified pension plan, capital requirements of the Company’s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors.

The Company’s forward-looking statements speak only as of the date of this report or as of the date they are made, and the Company undertakes no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the captions “Part I—Item 1A—Risk Factors” in the Company’s 2018 Annual Report filed with the SEC and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein and in the Company’s 2018 Annual Report as updated by the Company's periodic filings with the SEC.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For the Company's disclosures about market risk, please see "Part II—Item 7A—Quantitative and Qualitative Disclosures About Market Risk" in the Company's 2018 Annual Report filed with the SEC. There have been no material changes to the Company's disclosures about market risk in Part II—Item 7A of the Company's 2018 Annual Report.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2019. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2019, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

During the quarter ended June 30, 2019, the Company consolidated the premium collection of automated clearing house (ACH) and credit card payments for Business Insurance and Bond & Specialty Insurance into a single payment processing platform with a third-party provider, which has resulted in certain changes to business processes and internal control over financial reporting. Other than this consolidation to the single payment processing platform, there were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management reviewed and tested the effectiveness of the internal controls over financial reporting related to the consolidation to the single payment processing platform and concluded they were effective.

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

PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information required with respect to this item can be found under "Contingencies" in note 14 of notes to the unaudited consolidated financial statements contained in this quarterly report and is incorporated by reference into this Item 1.

Item 1A. RISK FACTORS

For a discussion of the Company’s potential risks or uncertainties, please see “Part I—Item 1A—Risk Factors” in the Company’s 2018 Annual Report filed with the SEC. In addition, please see “Part I—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Outlook” and “—Critical Accounting Estimates” herein and in the Company’s 2018 Annual Report. There have been no material changes to the risk factors disclosed in Part I—Item 1A of the Company’s 2018 Annual Report.

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)
April 1, 2019	April 30, 2019	405,098	$ 139.23	404,700	$ 2,855
May 1, 2019	May 31, 2019	1,120,337	$ 144.94	1,119,155	$ 2,692
June 1, 2019	June 30, 2019	1,048,985	$ 149.43	1,047,105	$ 2,536
Total		2,574,420	$ 145.87	2,570,960	$ 2,536

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

The Company acquired 3,460 shares for a total cost of $0.5 million during the three months ended June 30, 2019 that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock unit awards and performance share awards, and shares used by employees to cover the price of certain stock options that were exercised.

For additional information regarding the Company’s share repurchases, see “Part I—Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

Item 5. OTHER INFORMATION

Executive Ownership and Sales. All of the Company’s executive officers are subject to the Company’s executive stock ownership policy. For a summary of this policy as currently in effect, see “Compensation Discussion and Analysis - Additional Compensation Information - Stock Ownership Guidelines, Anti-Hedging and Pledging Policies, and Other Trading Restrictions” in the Company’s proxy statement filed with the SEC on April 5, 2019 (Proxy Statement). From time to time, some of the Company’s executives may determine that it is advisable to diversify their investments for personal financial planning reasons, or may seek liquidity for other reasons, and may, in compliance with the stock ownership policy, sell shares of common stock of the Company on the open market, in private transactions or to the Company. To effect such sales, from time to time, some of the Company’s executives may enter into trading plans designed to comply with the Company’s Securities Trading Policy and the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934. The trading plans will not reduce any of the executives’ ownership of the Company’s shares below the applicable executive stock ownership guidelines. The Company does not undertake any obligation to report Rule 10b5-1 plans that may be adopted by any employee or director of the Company in the future, or to report any modifications or termination of any publicly announced plan. As of the date of this report, none of the Company's named executive officers (i.e. an executive

Item 5. OTHER INFORMATION, Continued

officer included in the compensation disclosures in the Company's Proxy Statement) have entered into a Rule 10b5-1 trading plan that remains in effect.

Item 6. EXHIBITS

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of The Travelers Companies, Inc. (the Company), as amended and restated May 23, 2013, were filed as Exhibit 3.1 to the Company's current report on Form 8-K filed on May 24, 2013, and are incorporated herein by reference.
3.2	Bylaws of The Travelers Companies, Inc. as Amended and Restated November 3, 2016 were filed as Exhibit 3.2 to the Company's current report on Form 8-K filed on November 9, 2016, and are incorporated herein by reference.
10.1	The Travelers Companies, Inc. Amended and Restated 2014 Stock Incentive Plan was filed as Exhibit 10.1 to the Company's current report on Form 8-K filed on May 24, 2019, and is incorporated herein by reference.
31.1†	Certification of Alan D. Schnitzer, Chairman and Chief Executive Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Daniel S. Frey, Executive Vice President and Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification of Alan D. Schnitzer, Chairman and Chief Executive Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification of Daniel S. Frey, Executive Vice President and Chief Financial Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.1†	The following financial information from The Travelers Companies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 formatted in Inline XBRL: (i) Consolidated Statement of Income for the three months and six months ended June 30, 2019 and 2018; (ii) Consolidated Statement of Comprehensive Income for the three months and six months ended June 30, 2019 and 2018; (iii) Consolidated Balance Sheet at June 30, 2019 and December 31, 2018; (iv) Consolidated Statement of Changes in Shareholders' Equity for the three months and six months ended June 30, 2019 and 2018; (v) Consolidated Statement of Cash Flows for the six months ended June 30, 2019 and 2018; and (vi) Notes to Consolidated Financial Statements.

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† Filed herewith.

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

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

SIGNATURES

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

THE TRAVELERS COMPANIES, INC.
(Registrant)

Date: July 23, 2019 By /S/ CHRISTINE K. KALLA

Christine K. Kalla
Executive Vice President and General Counsel
(Authorized Signatory)

Date: July 23, 2019 By /S/ DOUGLAS K. RUSSELL

Douglas K. Russell
Senior Vice President and Corporate Controller (Principal Accounting Officer)

(Back To Top)

Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

I, Alan D. Schnitzer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of The Travelers Companies, Inc. (the Company);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s Board of Directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date:	July 23, 2019	By:	/S/ ALAN D. SCHNITZER
			Alan D. Schnitzer
			Chairman and Chief Executive Officer

(Back To Top)

Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

I, Daniel S. Frey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of The Travelers Companies, Inc. (the Company);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s Board of Directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date:	July 23, 2019	By:	/S/ DANIEL S. FREY
			Daniel S. Frey
			Executive Vice President and Chief Financial Officer

(Back To Top)

Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

THE TRAVELERS COMPANIES, INC.
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and 18 U.S.C. Section 1350, the undersigned officer of The Travelers Companies, Inc. (the “Company”), hereby certifies that the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	July 23, 2019	By:	/S/ ALAN D. SCHNITZER
			Alan D. Schnitzer
			Chairman and Chief Executive Officer

(Back To Top)

Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

THE TRAVELERS COMPANIES, INC.
CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and 18 U.S.C. Section 1350, the undersigned officer of The Travelers Companies, Inc. (the “Company”), hereby certifies that the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	July 23, 2019	By:	/S/ DANIEL S. FREY
			Daniel S. Frey
			Executive Vice President and Chief Financial Officer

(Back To Top)