

# Section 1: 10-Q (10-Q)

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## UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

### FORM 10-Q

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

For the quarterly period ended September 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

(State or other jurisdiction of  
incorporation or organization)

41-0518860

(I.R.S. Employer  
Identification No.)

485 Lexington Avenue

New York, NY 10017

(Address of principal executive offices) (Zip Code)

(917) 778-6000

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 October 18, 2019 was 258,112,771.

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**The Travelers Companies, Inc.**  
**Quarterly Report on Form 10-Q**  
**For Quarterly Period Ended September 30, 2019**

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**PART 1 — FINANCIAL INFORMATION**
**Item 1. FINANCIAL STATEMENTS**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Premiums	\$ 7,179	\$ 6,882	\$ 21,022	\$ 20,114
Net investment income	622	646	1,852	1,844
Fee income	121	109	346	324
Net realized investment gains <sup>(1)</sup>	23	29	101	54
Other revenues	68	57	197	150
<b>Total revenues</b>	<b>8,013</b>	<b>7,723</b>	<b>23,518</b>	<b>22,486</b>
<b>Claims and expenses</b>				
Claims and claim adjustment expenses	5,230	4,655	14,493	13,513
Amortization of deferred acquisition costs	1,169	1,117	3,420	3,259
General and administrative expenses	1,098	1,059	3,280	3,234
Interest expense	84	86	261	265
<b>Total claims and expenses</b>	<b>7,581</b>	<b>6,917</b>	<b>21,454</b>	<b>20,271</b>
<b>Income before income taxes</b>	<b>432</b>	<b>806</b>	<b>2,064</b>	<b>2,215</b>
Income tax expense	36	97	315	313
<b>Net income</b>	<b>\$ 396</b>	<b>\$ 709</b>	<b>\$ 1,749</b>	<b>\$ 1,902</b>
<b>Net income per share</b>				
Basic	\$ 1.52	\$ 2.65	\$ 6.65	\$ 7.03
Diluted	\$ 1.50	\$ 2.62	\$ 6.59	\$ 6.97
<b>Weighted average number of common shares outstanding</b>				
Basic	259.2	266.1	261.1	268.6
Diluted	261.8	268.4	263.4	271.1
<b>Cash dividends declared per common share</b>	<b>\$ 0.82</b>	<b>\$ 0.77</b>	<b>\$ 2.41</b>	<b>\$ 2.26</b>

- (1) Total other-than-temporary impairment (OTTI) losses were \$0 million for each of the three months ended September 30, 2019 and 2018, and \$(2) million and \$(1) million for the nine months ended September 30, 2019 and September 30, 2018, respectively. Of total OTTI, credit losses of \$0 million for each of the three months ended September 30, 2019 and 2018, and \$(2) million and \$(1) million for the nine months ended September 30, 2019 and September 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 nine months ended September 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 (Unaudited)**  
(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Net income</b>	<b>\$ 396</b>	<b>\$ 709</b>	<b>\$ 1,749</b>	<b>\$ 1,902</b>
<b>Other comprehensive income (loss)</b>				
Changes in net unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income	605	(414)	3,129	(1,915)
Having credit losses recognized in the consolidated statement of income	(3)	(11)	(2)	(25)
Net changes in benefit plan assets and obligations	14	22	40	65
Net changes in unrealized foreign currency translation	(75)	—	(20)	(152)
<b>Other comprehensive income (loss) before income taxes</b>	<b>541</b>	<b>(403)</b>	<b>3,147</b>	<b>(2,027)</b>
Income tax expense (benefit)	122	(88)	663	(413)
<b>Other comprehensive income (loss), net of taxes</b>	<b>419</b>	<b>(315)</b>	<b>2,484</b>	<b>(1,614)</b>
<b>Comprehensive income</b>	<b>\$ 815</b>	<b>\$ 394</b>	<b>\$ 4,233</b>	<b>\$ 288</b>

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

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

	September 30, 2019	December 31, 2018
	(Unaudited)	
<b>Assets</b>		
Fixed maturities, available for sale, at fair value (amortized cost \$65,021 and \$63,601)	\$ 68,011	\$ 63,464
Equity securities, at fair value (cost \$375 and \$382)	412	368
Real estate investments	963	904
Short-term securities	4,597	3,985
Other investments	3,437	3,557
<b>Total investments</b>	<b>77,420</b>	<b>72,278</b>
Cash	508	373
Investment income accrued	575	624
Premiums receivable	8,122	7,506
Reinsurance recoverables	8,162	8,370
Ceded unearned premiums	857	578
Deferred acquisition costs	2,321	2,120
Deferred taxes	—	445
Contractholder receivables	4,802	4,785
Goodwill	3,929	3,937
Other intangible assets	329	345
Other assets	3,216	2,872
<b>Total assets</b>	<b>\$ 110,241</b>	<b>\$ 104,233</b>
<b>Liabilities</b>		
Claims and claim adjustment expense reserves	\$ 51,612	\$ 50,668
Unearned premium reserves	14,912	13,555
Contractholder payables	4,802	4,785
Payables for reinsurance premiums	573	289
Deferred taxes	188	—
Debt	6,558	6,564
Other liabilities	5,989	5,478
<b>Total liabilities</b>	<b>84,634</b>	<b>81,339</b>
<b>Shareholders' equity</b>		
Common stock (1,750.0 shares authorized; 258.1 and 263.7 shares issued, 258.1 and 263.6 shares outstanding)	23,432	23,144
Retained earnings	36,317	35,204
Accumulated other comprehensive income (loss)	625	(1,859)
Treasury stock, at cost (519.3 and 510.9 shares)	(34,767)	(33,595)
<b>Total shareholders' equity</b>	<b>25,607</b>	<b>22,894</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 110,241</b>	<b>\$ 104,233</b>

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Common stock</b>				
Balance, beginning of period	\$ 23,372	\$ 23,040	\$ 23,144	\$ 22,886
Employee share-based compensation	28	16	173	93
Compensation amortization under share-based plans and other changes	32	33	115	110
Balance, end of period	<u>23,432</u>	<u>23,089</u>	<u>23,432</u>	<u>23,089</u>
<b>Retained earnings</b>				
Balance, beginning of period	36,135	34,296	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	396	709	1,749	1,902
Dividends	(215)	(207)	(636)	(613)
Other	1	1	—	2
Balance, end of period	<u>36,317</u>	<u>34,799</u>	<u>36,317</u>	<u>34,799</u>
<b>Accumulated other comprehensive income (loss), net of tax</b>				
Balance, beginning of period	206	(1,688)	(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)	419	(315)	2,484	(1,614)
Balance, end of period	<u>625</u>	<u>(2,003)</u>	<u>625</u>	<u>(2,003)</u>
<b>Treasury stock, at cost</b>				
Balance, beginning of period	(34,392)	(33,025)	(33,595)	(32,274)
Treasury stock acquired — share repurchase authorization	(375)	(400)	(1,125)	(1,100)
Net shares acquired related to employee share-based compensation plans	—	—	(47)	(51)
Balance, end of period	<u>(34,767)</u>	<u>(33,425)</u>	<u>(34,767)</u>	<u>(33,425)</u>
<b>Total shareholders' equity</b>	<u>\$ 25,607</u>	<u>\$ 22,460</u>	<u>\$ 25,607</u>	<u>\$ 22,460</u>
<b>Common shares outstanding</b>				
Balance, beginning of period	260.3	267.7	263.6	271.4
Treasury stock acquired — share repurchase authorization	(2.5)	(3.0)	(8.0)	(8.2)
Net shares issued under employee share-based compensation plans	0.3	0.1	2.5	1.6
Balance, end of period	<u>258.1</u>	<u>264.8</u>	<u>258.1</u>	<u>264.8</u>

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)

	Nine Months Ended	
	September 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net income	\$ 1,749	\$ 1,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	(101)	(54)
Depreciation and amortization	581	609
Deferred federal income tax benefit	(10)	(43)
Amortization of deferred acquisition costs	3,420	3,259
Equity in income from other investments	(196)	(284)
Premiums receivable	(611)	(508)
Reinsurance recoverables	212	(21)
Deferred acquisition costs	(3,619)	(3,425)
Claims and claim adjustment expense reserves	927	880
Unearned premium reserves	1,350	1,095
Other	91	22
<b>Net cash provided by operating activities</b>	<b>3,793</b>	<b>3,432</b>
<b>Cash flows from investing activities</b>		
Proceeds from maturities of fixed maturities	4,895	5,655
Proceeds from sales of investments:		
Fixed maturities	1,801	3,185
Equity securities	99	127
Real estate investments	—	8
Other investments	346	270
Purchases of investments:		
Fixed maturities	(8,234)	(10,862)
Equity securities	(62)	(86)
Real estate investments	(95)	(57)
Other investments	(369)	(392)
Net sales (purchases) of short-term securities	(617)	456
Securities transactions in course of settlement	432	173
Acquisition, net of cash acquired	—	(4)
Other	(243)	(232)
<b>Net cash used in investing activities</b>	<b>(2,047)</b>	<b>(1,759)</b>
<b>Cash flows from financing activities</b>		
Treasury stock acquired — share repurchase authorization	(1,125)	(1,100)
Treasury stock acquired — net employee share-based compensation	(47)	(51)
Dividends paid to shareholders	(633)	(611)
Payment of debt	(500)	(600)
Issuance of debt	492	591
Issuance of common stock — employee share options	206	117
<b>Net cash used in financing activities</b>	<b>(1,607)</b>	<b>(1,654)</b>
Effect of exchange rate changes on cash	(4)	(4)
Net increase in cash	135	15
Cash at beginning of year	373	344
<b>Cash at end of period</b>	<b>\$ 508</b>	<b>\$ 359</b>

**Supplemental disclosure of cash flow information**



Income taxes paid	\$	<b>367</b>	\$	244
Interest paid	\$	<b>231</b>	\$	225

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 September 30, in millions)	Business Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
<b>2019</b>				
Premiums	\$ 3,882	\$ 653	\$ 2,644	\$ 7,179
Net investment income	457	59	106	622
Fee income	114	—	7	121
Other revenues	39	7	22	68
Total segment revenues <sup>(1)</sup>	<u>\$ 4,492</u>	<u>\$ 719</u>	<u>\$ 2,779</u>	<u>\$ 7,990</u>
Segment income <sup>(1)</sup>	<u>\$ 179</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 449</u>
<b>2018</b>				
Premiums	\$ 3,743	\$ 617	\$ 2,522	\$ 6,882
Net investment income	482	57	107	646
Fee income	103	—	6	109
Other revenues	33	5	17	55
Total segment revenues <sup>(1)</sup>	<u>\$ 4,361</u>	<u>\$ 679</u>	<u>\$ 2,652</u>	<u>\$ 7,692</u>
Segment income <sup>(1)</sup>	<u>\$ 410</u>	<u>\$ 196</u>	<u>\$ 153</u>	<u>\$ 759</u>

(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 nine months ended September 30, in millions)	Business Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
<b>2019</b>				
Premiums	\$ 11,407	\$ 1,891	\$ 7,724	\$ 21,022
Net investment income	1,365	173	314	1,852
Fee income	329	—	17	346
Other revenues	112	19	65	196
Total segment revenues <sup>(1)</sup>	<u>\$ 13,213</u>	<u>\$ 2,083</u>	<u>\$ 8,120</u>	<u>\$ 23,416</u>
Segment income <sup>(1)</sup>	<u>\$ 944</u>	<u>\$ 451</u>	<u>\$ 497</u>	<u>\$ 1,892</u>
<b>2018</b>				
Premiums	\$ 10,952	\$ 1,800	\$ 7,362	\$ 20,114
Net investment income	1,368	172	304	1,844
Fee income	309	—	15	324
Other revenues	84	16	48	148
Total segment revenues <sup>(1)</sup>	<u>\$ 12,713</u>	<u>\$ 1,988</u>	<u>\$ 7,729</u>	<u>\$ 22,430</u>
Segment income <sup>(1)</sup>	<u>\$ 1,247</u>	<u>\$ 573</u>	<u>\$ 265</u>	<u>\$ 2,085</u>

(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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenue reconciliation</b>				
Earned premiums				
Business Insurance:				
Domestic:				
Workers' compensation	\$ 969	\$ 988	\$ 2,891	\$ 2,932
Commercial automobile	672	611	1,947	1,760
Commercial property	496	466	1,429	1,357
General liability	594	558	1,746	1,614
Commercial multi-peril	872	850	2,568	2,477
Other	12	7	29	20
Total Domestic	3,615	3,480	10,610	10,160
International	267	263	797	792
Total Business Insurance	3,882	3,743	11,407	10,952
Bond & Specialty Insurance:				
Domestic:				
Fidelity and surety	265	261	769	760
General liability	276	255	799	745
Other	54	50	159	146
Total Domestic	595	566	1,727	1,651
International	58	51	164	149
Total Bond & Specialty Insurance	653	617	1,891	1,800
Personal Insurance:				
Domestic:				
Automobile	1,344	1,297	3,962	3,783
Homeowners and Other	1,119	1,051	3,236	3,068
Total Domestic	2,463	2,348	7,198	6,851
International	181	174	526	511
Total Personal Insurance	2,644	2,522	7,724	7,362
Total earned premiums	7,179	6,882	21,022	20,114
Net investment income	622	646	1,852	1,844
Fee income	121	109	346	324
Other revenues	68	55	196	148
Total segment revenues	7,990	7,692	23,416	22,430
Other revenues	—	2	1	2
Net realized investment gains	23	29	101	54
Total revenues	\$ 8,013	\$ 7,723	\$ 23,518	\$ 22,486
<b>Income reconciliation, net of tax</b>				
Total segment income	\$ 449	\$ 759	\$ 1,892	\$ 2,085
Interest Expense and Other <sup>(1)</sup>	(71)	(72)	(222)	(226)
Core income	378	687	1,670	1,859
Net realized investment gains	18	22	79	43
Net income	\$ 396	\$ 709	\$ 1,749	\$ 1,902

(1) The primary component of Interest Expense and Other was after-tax interest expense of \$66 million and \$68 million for the three months ended September 30, 2019 and 2018, respectively, and \$206 million and \$209 million for the nine months ended September 30, 2019 and 2018, respectively.



**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**2. SEGMENT INFORMATION, Continued**

(in millions)	September 30, 2019	December 31, 2018
<b>Asset reconciliation</b>		
Business Insurance	\$ 83,876	\$ 78,965
Bond & Specialty Insurance	8,708	8,693
Personal Insurance	16,945	15,943
Total assets by reportable segment	109,529	103,601
Other assets <sup>(1)</sup>	712	632
Total consolidated assets	<u>\$ 110,241</u>	<u>\$ 104,233</u>

(1) The primary components of other assets at both September 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 September 30, 2019, in millions)	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,001	\$ 20	\$ 1	\$ 2,020
Obligations of states, municipalities and political subdivisions:				
Local general obligation	15,418	881	2	16,297
Revenue	9,666	626	1	10,291
State general obligation	1,196	69	—	1,265
Pre-refunded	1,991	72	—	2,063
Total obligations of states, municipalities and political subdivisions	28,271	1,648	3	29,916
Debt securities issued by foreign governments	1,118	13	1	1,130
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	3,064	101	3	3,162
All other corporate bonds	30,518	1,238	25	31,731
Redeemable preferred stock	49	3	—	52
Total	<u>\$ 65,021</u>	<u>\$ 3,023</u>	<u>\$ 33</u>	<u>\$ 68,011</u>

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

(at December 31, 2018, in millions)	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
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 \$2.06 billion and \$2.85 billion at September 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 \$1.80 billion and \$3.19 billion during the nine months ended September 30, 2019 and 2018, respectively. Gross gains of \$51 million and \$47 million and gross losses of \$6 million and \$16 million were realized on those sales during the nine months ended September 30, 2019 and 2018, respectively.

**Equity Securities**

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

(at September 30, 2019, in millions)	Cost	Gross Gains	Gross Losses	Fair Value
Public common stock	\$ 340	\$ 36	\$ 6	\$ 370
Non-redeemable preferred stock	35	7	—	42
Total	\$ 375	\$ 43	\$ 6	\$ 412

(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 nine months ended September 30, 2019, the Company recognized \$49 million of net gains on equity securities still held as of September 30, 2019. For the nine months ended September 30, 2018, the Company recognized \$5 million of net gains on equity securities still held as of September 30, 2018.



**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**3. INVESTMENTS, Continued**
**Unrealized Investment Losses**

The following tables summarize, for all investments in an unrealized loss position at September 30, 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	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>(at September 30, 2019, in millions)</b>						
<b>Fixed maturities</b>						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 54	\$ —	\$ 352	\$ 1	\$ 406	\$ 1
Obligations of states, municipalities and political subdivisions	413	3	13	—	426	3
Debt securities issued by foreign governments	67	—	157	1	224	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	288	1	235	2	523	3
All other corporate bonds	818	8	985	17	1,803	25
Total fixed maturities	<u>\$ 1,640</u>	<u>\$ 12</u>	<u>\$ 1,742</u>	<u>\$ 21</u>	<u>\$ 3,382</u>	<u>\$ 33</u>

	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>(at December 31, 2018, in millions)</b>						
<b>Fixed maturities</b>						
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	<u>\$ 19,036</u>	<u>\$ 399</u>	<u>\$ 12,579</u>	<u>\$ 450</u>	<u>\$ 31,615</u>	<u>\$ 849</u>

At September 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.

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

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

**3. INVESTMENTS, Continued**

**Impairment Charges**

Impairment charges included in net realized investment gains in the consolidated statement of income were \$0 million for each of the three months ended September 30, 2019 and 2018, and \$2 million and \$1 million for the nine months ended September 30, 2019 and 2018, respectively.

The cumulative amount of credit losses on fixed maturities held at September 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 \$17 million and \$54 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 nine months ended September 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 September 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 \$102 million and \$82 million at September 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 \$40 million and \$104 million at September 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.

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

## 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 September 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 September 30, 2019, in millions)	Total	Level 1	Level 2	Level 3
<b>Invested assets:</b>				
<b>Fixed maturities</b>				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,020	\$ 2,020	\$ —	\$ —
Obligations of states, municipalities and political subdivisions	29,916	—	29,904	12
Debt securities issued by foreign governments	1,130	—	1,130	—
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	3,162	—	3,126	36
All other corporate bonds	31,731	19	31,618	94
Redeemable preferred stock	52	3	49	—
Total fixed maturities	<u>68,011</u>	<u>2,042</u>	<u>65,827</u>	<u>142</u>
<b>Equity securities</b>				
Public common stock	370	370	—	—
Non-redeemable preferred stock	42	12	30	—
Total equity securities	<u>412</u>	<u>382</u>	<u>30</u>	<u>—</u>
<b>Other investments</b>				
Total	<u>\$ 68,458</u>	<u>\$ 2,439</u>	<u>\$ 65,857</u>	<u>\$ 162</u>
<b>Other liabilities</b>				
Total	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7</u>

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**4. FAIR VALUE MEASUREMENTS, Continued**

(at December 31, 2018, in millions)	Total	Level 1	Level 2	Level 3
<b>Invested assets:</b>				
<b>Fixed maturities</b>				
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	—
<b>Total fixed maturities</b>	<b>63,464</b>	<b>2,067</b>	<b>61,211</b>	<b>186</b>
<b>Equity securities</b>				
Public common stock	316	316	—	—
Non-redeemable preferred stock	52	30	22	—
<b>Total equity securities</b>	<b>368</b>	<b>346</b>	<b>22</b>	<b>—</b>
<b>Other investments</b>				
	52	16	—	36
<b>Total</b>	<b>\$ 63,884</b>	<b>\$ 2,429</b>	<b>\$ 61,233</b>	<b>\$ 222</b>
<b>Other liabilities</b>	<b>\$ 10</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 10</b>

There was no significant activity in Level 3 of the hierarchy during the nine months ended September 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 September 30, 2019, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Short-term securities	\$ 4,597	\$ 4,597	\$ 965	\$ 3,582	\$ 50
<b>Financial liabilities</b>					
Debt	\$ 6,458	\$ 8,129	\$ —	\$ 8,129	\$ —
Commercial paper	\$ 100	\$ 100	\$ —	\$ 100	\$ —

(at December 31, 2018, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Short-term securities	\$ 3,985	\$ 3,985	\$ 632	\$ 3,316	\$ 37
<b>Financial liabilities</b>					
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 nine months ended September 30, 2019 or year ended December 31, 2018.

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**5. GOODWILL AND OTHER INTANGIBLE ASSETS**
***Goodwill***

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

(in millions)	September 30, 2019	December 31, 2018
Business Insurance	\$ 2,572	\$ 2,585
Bond & Specialty Insurance	550	550
Personal Insurance	781	776
Other	26	26
Total	<u>\$ 3,929</u>	<u>\$ 3,937</u>

***Other Intangible Assets***

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

(at September 30, 2019, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
<b>Subject to amortization</b>			
Customer-related	\$ 94	\$ 18	\$ 76
Contract-based <sup>(1)</sup>	204	177	27
Total subject to amortization	298	195	103
<b>Not subject to amortization</b>			
Total	<u>\$ 524</u>	<u>\$ 195</u>	<u>\$ 329</u>

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

- (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.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

Amortization expense of intangible assets was \$4 million for each of the three months ended September 30, 2019 and 2018 and \$12 million for each of the nine months ended September 30, 2019 and 2018. Amortization expense for all intangible assets subject to amortization is estimated to be \$4 million for the remainder of 2019, \$14 million in 2020, \$13 million in 2021, \$12 million in 2022 and \$12 million in 2023. Amortization expense for intangible assets arising from insurance contracts acquired in a business combination is estimated to be \$1 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)	September 30, 2019	December 31, 2018
Property-casualty	\$ 51,598	\$ 50,653
Accident and health	14	15
Total	<u>\$ 51,612</u>	<u>\$ 50,668</u>

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

(in millions)	Nine Months Ended September 30,	
	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	<u>42,471</u>	<u>41,510</u>
Estimated claims and claim adjustment expenses for claims arising in the current year	14,193	13,707
Estimated increase (decrease) in claims and claim adjustment expenses for claims arising in prior years	214	(255)
Total increases	<u>14,407</u>	<u>13,452</u>
Claims and claim adjustment expense payments for claims arising in:		
Current year	5,174	5,112
Prior years	8,034	7,419
Total payments	<u>13,208</u>	<u>12,531</u>
Unrealized foreign exchange (gain) loss	12	(82)
Net reserves at end of period	<u>43,682</u>	<u>42,349</u>
Plus reinsurance recoverables on unpaid losses	7,916	8,066
Claims and claim adjustment expense reserves at end of period	<u>\$ 51,598</u>	<u>\$ 50,415</u>

Gross claims and claim adjustment expense reserves at September 30, 2019 increased by \$945 million from December 31, 2018, primarily reflecting the impact of higher volumes of insured exposures, loss cost trends for the current accident year and net unfavorable prior year reserve development.

Reinsurance recoverables on unpaid losses at September 30, 2019 decreased by \$266 million from December 31, 2018, primarily reflecting the impact of cash collections in the first nine 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 Restructuring Support Agreement dated as of September 22, 2019 reflecting a proposed settlement of subrogation claims against Pacific Gas & Electric Company (PG&E) and the recent re-

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

**6. INSURANCE CLAIM RESERVES, Continued**

organization proposals by various stakeholders in the 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.

**Prior Year Reserve Development**

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

For the nine months ended September 30, 2019 and 2018, estimated claims and claim adjustment expenses incurred included \$(214) million and \$255 million, respectively, of net favorable (unfavorable) development for claims arising in prior years, including \$(120) million and \$350 million, respectively, of net favorable (unfavorable) prior year reserve development and \$37 million of accretion of discount in each period that impacted the Company's results of operations.

*Business Insurance.* Net unfavorable prior year reserve development in the third quarter of 2019 totaled \$316 million, primarily driven by (i) a \$220 million increase to asbestos reserves, and higher than expected loss experience in the segment's domestic operations in (ii) the general liability product line (excluding the increase to asbestos reserves) for both primary and excess coverages for multiple accident years and (iii) the commercial automobile product line for recent accident years, partially offset by (iv) better than expected loss experience in the segment's domestic operations in the workers' compensation product line for recent accident years. Net unfavorable prior year reserve development in the third quarter of 2018 totaled \$56 million, primarily driven by (i) a \$225 million increase to asbestos reserves and (ii) higher than expected loss experience in the segment's domestic operations in the commercial automobile product line for recent accident years, partially offset by (iii) better than expected loss experience in the segment's domestic operations in the workers' compensation product line for multiple accident years.

Net unfavorable prior year reserve development in the first nine months of 2019 totaled \$266 million, primarily driven by (i) higher than expected loss experience in the segment's domestic operations in the general liability product line (excluding increases to asbestos and environmental reserves) for primary and excess coverages for multiple accident years, including the impact for accident years 2009 and prior of the enactment of legislation by a number of states, which extended the statute of limitations for childhood sexual molestation claims, (ii) the \$220 million increase to asbestos reserves, (iii) higher than expected loss experience in the segment's domestic operations in the commercial automobile product line for recent accident years, (iv) a \$68 million increase to environmental reserves and (v) higher than expected loss experience in the segment's domestic operations in the commercial multi-peril product line for recent accident years, partially offset by better than expected loss experience in the segment's domestic operations in (vi) the workers' compensation product line for multiple accident years and (vii) the commercial property product line for recent accident years. Net favorable prior year reserve development in the first nine months of 2018 totaled \$94 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 (iii) a \$225 million increase to asbestos reserves, (iv) higher than expected loss experience in the segment's domestic operations in the commercial automobile product line for recent accident years and (v) a \$55 million increase to environmental reserves.

*Bond & Specialty Insurance.* Net favorable prior year reserve development in the third quarter and first nine months of 2019 totaled \$3 million and \$45 million, respectively, and net favorable prior year reserve development in the third quarter and first nine months of 2018 totaled \$53 million and \$177 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 the third quarter and first nine months of 2019 totaled \$19 million and \$101 million, respectively, 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 third quarter and first nine months of 2018 totaled \$17 million and \$79 million, respectively, primarily driven by better than expected loss experience in the segment's domestic operations in the automobile product line for recent accident years.

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

**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 nine months ended September 30, 2019.

(in millions)	Changes in Net Unrealized Gains (Losses) on Investment Securities		Net Benefit Plan Assets and Obligations Recognized in Shareholders' Equity	Net Unrealized Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
	Having No Credit Losses Recognized in the Consolidated Statement of Income	Having Credit Losses Recognized in the Consolidated Statement of Income			
<b>Balance, June 30, 2019</b>	<b>1,684</b>	<b>194</b>	<b>(852)</b>	<b>(820)</b>	<b>206</b>
Other comprehensive income (loss) (OCI) before reclassifications, net of tax	489	(2)	2	(68)	421
Amounts reclassified from AOCI, net of tax	(11)	—	9	—	(2)
Net OCI, current period	478	(2)	11	(68)	419
<b>Balance, September 30, 2019</b>	<b>\$ 2,162</b>	<b>\$ 192</b>	<b>\$ (841)</b>	<b>\$ (888)</b>	<b>\$ 625</b>

(in millions)	Changes in Net Unrealized Gains (Losses) on Investment Securities		Net Benefit Plan Assets and Obligations Recognized in Shareholders' Equity	Net Unrealized Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
	Having No Credit Losses Recognized in the Consolidated Statement of Income	Having Credit Losses Recognized in the Consolidated Statement of Income			
<b>Balance, December 31, 2018</b>	<b>\$ (306)</b>	<b>\$ 193</b>	<b>\$ (873)</b>	<b>\$ (873)</b>	<b>\$ (1,859)</b>
Other comprehensive income (OCI) before reclassifications, net of tax	2,502	(1)	2	(15)	2,488
Amounts reclassified from AOCI, net of tax	(34)	—	30	—	(4)
Net OCI, current period	2,468	(1)	32	(15)	2,484
<b>Balance, September 30, 2019</b>	<b>\$ 2,162</b>	<b>\$ 192</b>	<b>\$ (841)</b>	<b>\$ (888)</b>	<b>\$ 625</b>



**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME, Continued**

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Changes in net unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income	\$ 605	\$ (414)	\$ 3,129	\$ (1,915)
Income tax expense (benefit)	127	(87)	661	(403)
Net of taxes	478	(327)	2,468	(1,512)
Having credit losses recognized in the consolidated statement of income	(3)	(11)	(2)	(25)
Income tax benefit	(1)	(3)	(1)	(6)
Net of taxes	(2)	(8)	(1)	(19)
Net changes in benefit plan assets and obligations	14	22	40	65
Income tax expense	3	5	8	14
Net of taxes	11	17	32	51
Net changes in unrealized foreign currency translation	(75)	—	(20)	(152)
Income tax benefit	(7)	(3)	(5)	(18)
Net of taxes	(68)	3	(15)	(134)
Total other comprehensive income (loss)	541	(403)	3,147	(2,027)
Total income tax expense (benefit)	122	(88)	663	(413)
<b>Total other comprehensive income (loss), net of taxes</b>	<b>\$ 419</b>	<b>\$ (315)</b>	<b>\$ 2,484</b>	<b>\$ (1,614)</b>

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME, Continued**

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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income <sup>(1)</sup>	\$ (14)	\$ (18)	\$ (43)	\$ (30)
Income tax expense <sup>(2)</sup>	(3)	(3)	(9)	(6)
Net of taxes	(11)	(15)	(34)	(24)
Having credit losses recognized in the consolidated statement of income <sup>(1)</sup>				
Income tax benefit <sup>(2)</sup>	—	—	—	—
Net of taxes	—	—	—	—
Reclassification adjustment related to benefit plan assets and obligations:				
Claims and claim adjustment expenses <sup>(3)</sup>	4	9	15	26
General and administrative expenses <sup>(3)</sup>	8	13	23	39
Total	12	22	38	65
Income tax benefit <sup>(2)</sup>	3	5	8	14
Net of taxes	9	17	30	51
Reclassification adjustment related to foreign currency translation <sup>(1)</sup>				
Income tax benefit <sup>(2)</sup>	—	—	—	—
Net of taxes	—	—	—	—
Total reclassifications	(2)	4	(5)	35
Total income tax (expense) benefit	—	2	(1)	8
<b>Total reclassifications, net of taxes</b>	<b>\$ (2)</b>	<b>\$ 2</b>	<b>\$ (4)</b>	<b>\$ 27</b>

(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.

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

**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 September 30, 2019 and December 31, 2018.

**9. COMMON SHARE REPURCHASES**

During the three months and nine months ended September 30, 2019, the Company repurchased 2.5 million and 8.0 million shares, respectively, under its share repurchase authorization, for a total cost of \$375 million and \$1.13 billion, respectively. The average cost per share repurchased was \$147.23 and \$140.35, respectively. In addition, the Company acquired 628 shares and 0.3 million shares for a total cost of \$0.1 million and \$47 million during the three months and nine months ended September 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 September 30, 2019, the Company had \$2.16 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Basic and Diluted</b>				
Net income, as reported	\$ 396	\$ 709	\$ 1,749	\$ 1,902
Participating share-based awards — allocated income	(3)	(5)	(12)	(14)
Net income available to common shareholders — basic and diluted	\$ 393	\$ 704	\$ 1,737	\$ 1,888
<b>Common Shares</b>				
<b>Basic</b>				
Weighted average shares outstanding	259.2	266.1	261.1	268.6
<b>Diluted</b>				
Weighted average shares outstanding	259.2	266.1	261.1	268.6
Weighted average effects of dilutive securities — stock options and performance shares	2.6	2.3	2.3	2.5
Total	261.8	268.4	263.4	271.1
<b>Net Income per Common Share</b>				
Basic	\$ 1.52	\$ 2.65	\$ 6.65	\$ 7.03
Diluted	\$ 1.50	\$ 2.62	\$ 6.59	\$ 6.97

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**11. SHARE-BASED INCENTIVE COMPENSATION**

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

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value (\$ in millions)
Vested at end of period <sup>(1)</sup>	6,001,876	\$ 106.47	5.6 years	\$ 253
Exercisable at end of period	4,039,266	\$ 96.13	4.2 years	\$ 212

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

The total compensation cost for all share-based incentive compensation awards recognized in earnings was \$32 million and \$33 million for the three months ended September 30, 2019 and 2018, respectively, and \$112 million and \$110 million for the nine months ended September 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 September 30, 2019 and 2018, and \$20 million for each of the nine months ended September 30, 2019 and 2018.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at September 30, 2019 was \$169 million, which is expected to be recognized over a weighted-average period of 1.8 years.

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

The following table summarizes the components of net periodic benefit cost for the Company's pension and postretirement benefit plans recognized in the consolidated statement of income for the three months ended September 30, 2019 and 2018.

(for the three months ended September 30, in millions)	Pension Plans		Postretirement Benefit Plans	
	2019	2018	2019	2018
<b>Net Periodic Benefit Cost:</b>				
Service cost	\$ 30	\$ 33	\$ —	\$ —
Non-service cost (benefit):				
Interest cost on benefit obligation	\$ 35	\$ 32	\$ 2	\$ 1
Expected return on plan assets	(69)	(66)	—	—
Amortization of unrecognized:				
Prior service benefit	—	—	(1)	(1)
Net actuarial loss	14	22	—	—
Total non-service cost (benefit)	(20)	(12)	1	—
Net periodic benefit cost	\$ 10	\$ 21	\$ 1	\$ —

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

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

(for the three months ended September 30, in millions)	Pension Plans		Postretirement Benefit Plans	
	2019	2018	2019	2018
<b>Service Cost:</b>				
Claims and claim adjustment expenses	\$ 13	\$ 13	\$ —	\$ —
General and administrative expenses	17	20	—	—
Total service cost	30	33	—	—
<b>Non-Service Cost (Benefit):</b>				
Claims and claim adjustment expenses	(9)	(4)	—	—
General and administrative expenses	(11)	(8)	1	—
Total non-service cost (benefit)	(20)	(12)	1	—
Net periodic benefit cost	\$ 10	\$ 21	\$ 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 nine months ended September 30, 2019 and 2018.

(for the nine months ended September 30, in millions)	Pension Plans		Postretirement Benefit Plans	
	2019	2018	2019	2018
<b>Net Periodic Benefit Cost:</b>				
Service cost	\$ 89	\$ 99	\$ —	\$ —
<b>Non-service cost (benefit):</b>				
Interest cost on benefit obligation	105	95	6	5
Expected return on plan assets	(206)	(198)	—	—
<b>Amortization of unrecognized:</b>				
Prior service benefit	(1)	(1)	(3)	(3)
Net actuarial loss	42	68	—	—
Total non-service cost (benefit)	(60)	(36)	3	2
Net periodic benefit cost	\$ 29	\$ 63	\$ 3	\$ 2

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

(for the nine months ended September 30, in millions)	Pension Plans		Postretirement Benefit Plans	
	2019	2018	2019	2018
<b>Service Cost:</b>				
Claims and claim adjustment expenses	\$ 37	\$ 40	\$ —	\$ —
General and administrative expenses	52	59	—	—
Total service cost	89	99	—	—
<b>Non-Service Cost (Benefit):</b>				
Claims and claim adjustment expenses	(25)	(14)	1	1
General and administrative expenses	(35)	(22)	2	1
Total non-service cost (benefit)	(60)	(36)	3	2
Net periodic benefit cost	\$ 29	\$ 63	\$ 3	\$ 2



**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**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 September 30, 2019	Nine Months Ended September 30, 2019
<b>Lease cost</b>		
Operating leases	\$ 23	\$ 68
Short-term leases <sup>(1)</sup>	2	9
Lease expense	25	77
Less: sublease income <sup>(2)</sup>	—	—
Net lease cost	\$ 25	\$ 77
<b>Other information on operating leases</b>		
Cash payments included in the measurement of lease liabilities reported in operating cash flows	\$ 27	\$ 77
Right-of-use assets obtained in exchange for new lease liabilities	\$ 14	\$ 50
Weighted average discount rate	3.04%	3.04%
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	\$ 26
2020	106
2021	92
2022	70
2023	50
Thereafter	82
Total undiscounted lease payments	426
Less: present value adjustment	35
Operating lease liability	\$ 391

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

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

**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 \$1.55 billion and \$1.60 billion at September 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 September 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 September 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 September 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



**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**15. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued**

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

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Revenues</b>					
Premiums	\$ 4,923	\$ 2,256	\$ —	\$ —	\$ 7,179
Net investment income	428	185	9	—	622
Fee income	120	1	—	—	121
Net realized investment gains <sup>(1)</sup>	7	16	—	—	23
Other revenues	36	32	—	—	68
<b>Total revenues</b>	<b>5,514</b>	<b>2,490</b>	<b>9</b>	<b>—</b>	<b>8,013</b>
<b>Claims and expenses</b>					
Claims and claim adjustment expenses	3,555	1,675	—	—	5,230
Amortization of deferred acquisition costs	791	378	—	—	1,169
General and administrative expenses	752	341	5	—	1,098
Interest expense	12	—	72	—	84
<b>Total claims and expenses</b>	<b>5,110</b>	<b>2,394</b>	<b>77</b>	<b>—</b>	<b>7,581</b>
<b>Income (loss) before income taxes</b>	<b>404</b>	<b>96</b>	<b>(68)</b>	<b>—</b>	<b>432</b>
Income tax expense (benefit)	42	12	(18)	—	36
Net income of subsidiaries	—	—	446	(446)	—
<b>Net income</b>	<b>\$ 362</b>	<b>\$ 84</b>	<b>\$ 396</b>	<b>\$ (446)</b>	<b>\$ 396</b>

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

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**15. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued**
**CONSOLIDATING STATEMENT OF INCOME (Unaudited)**

For the three months ended September 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Revenues</b>					
Premiums	\$ 4,715	\$ 2,167	\$ —	\$ —	\$ 6,882
Net investment income	444	193	9	—	646
Fee income	108	1	—	—	109
Net realized investment gains <sup>(1)</sup>	13	9	7	—	29
Other revenues	29	30	—	(2)	57
<b>Total revenues</b>	<b>5,309</b>	<b>2,400</b>	<b>16</b>	<b>(2)</b>	<b>7,723</b>
<b>Claims and expenses</b>					
Claims and claim adjustment expenses	3,149	1,506	—	—	4,655
Amortization of deferred acquisition costs	757	360	—	—	1,117
General and administrative expenses	728	326	7	(2)	1,059
Interest expense	12	—	74	—	86
<b>Total claims and expenses</b>	<b>4,646</b>	<b>2,192</b>	<b>81</b>	<b>(2)</b>	<b>6,917</b>
<b>Income (loss) before income taxes</b>	<b>663</b>	<b>208</b>	<b>(65)</b>	<b>—</b>	<b>806</b>
Income tax expense (benefit)	104	36	(43)	—	97
Net income of subsidiaries	—	—	731	(731)	—
<b>Net income</b>	<b>\$ 559</b>	<b>\$ 172</b>	<b>\$ 709</b>	<b>\$ (731)</b>	<b>\$ 709</b>

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

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

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

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

**CONSOLIDATING STATEMENT OF INCOME (Unaudited)**

For the nine months ended September 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Revenues</b>					
Premiums	\$ 14,398	\$ 6,624	\$ —	\$ —	\$ 21,022
Net investment income	1,299	521	32	—	1,852
Fee income	345	1	—	—	346
Net realized investment gains (1)	43	37	21	—	101
Other revenues	105	92	—	—	197
<b>Total revenues</b>	<b>16,190</b>	<b>7,275</b>	<b>53</b>	<b>—</b>	<b>23,518</b>
<b>Claims and expenses</b>					
Claims and claim adjustment expenses	9,827	4,666	—	—	14,493
Amortization of deferred acquisition costs	2,276	1,144	—	—	3,420
General and administrative expenses	2,242	1,023	15	—	3,280
Interest expense	36	—	225	—	261
<b>Total claims and expenses</b>	<b>14,381</b>	<b>6,833</b>	<b>240</b>	<b>—</b>	<b>21,454</b>
<b>Income (loss) before income taxes</b>	<b>1,809</b>	<b>442</b>	<b>(187)</b>	<b>—</b>	<b>2,064</b>
Income tax expense (benefit)	310	66	(61)	—	315
Net income of subsidiaries	—	—	1,875	(1,875)	—
<b>Net income</b>	<b>\$ 1,499</b>	<b>\$ 376</b>	<b>\$ 1,749</b>	<b>\$ (1,875)</b>	<b>\$ 1,749</b>

- (1) Total other-than-temporary impairments (OTTI) for the nine months ended September 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	\$ —	\$ —	\$ —	\$ —	\$ —

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**15. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued**
**CONSOLIDATING STATEMENT OF INCOME (Unaudited)**

For the nine months ended September 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Revenues</b>					
Premiums	\$ 13,760	\$ 6,354	\$ —	\$ —	\$ 20,114
Net investment income	1,268	553	23	—	1,844
Fee income	323	1	—	—	324
Net realized investment gains (1)	33	13	8	—	54
Other revenues	69	85	—	(4)	150
<b>Total revenues</b>	<b>15,453</b>	<b>7,006</b>	<b>31</b>	<b>(4)</b>	<b>22,486</b>
<b>Claims and expenses</b>					
Claims and claim adjustment expenses	9,123	4,390	—	—	13,513
Amortization of deferred acquisition costs	2,189	1,070	—	—	3,259
General and administrative expenses	2,223	997	18	(4)	3,234
Interest expense	36	—	229	—	265
<b>Total claims and expenses</b>	<b>13,571</b>	<b>6,457</b>	<b>247</b>	<b>(4)</b>	<b>20,271</b>
<b>Income (loss) before income taxes</b>	<b>1,882</b>	<b>549</b>	<b>(216)</b>	<b>—</b>	<b>2,215</b>
Income tax expense (benefit)	314	89	(90)	—	313
Net income of subsidiaries	—	—	2,028	(2,028)	—
<b>Net income</b>	<b>\$ 1,568</b>	<b>\$ 460</b>	<b>\$ 1,902</b>	<b>\$ (2,028)</b>	<b>\$ 1,902</b>

(1) Total other-than-temporary impairments (OTTI) for the nine months ended September 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 gains (losses) recognized in OCI	\$ —	\$ —	\$ —	\$ —	\$ —

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

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

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

**CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)**

For the three months ended September 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Net income</b>	\$ 362	\$ 84	\$ 396	\$ (446)	\$ 396
<b>Other comprehensive income:</b>					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	427	177	1	—	605
Having credit losses recognized in the consolidated statement of income	(3)	—	—	—	(3)
Net changes in benefit plan assets and obligations	—	2	12	—	14
Net changes in unrealized foreign currency translation	(33)	(42)	—	—	(75)
<b>Other comprehensive income before income taxes and other comprehensive income of subsidiaries</b>	391	137	13	—	541
Income tax expense	85	37	—	—	122
<b>Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries</b>	306	100	13	—	419
Other comprehensive income of subsidiaries	—	—	406	(406)	—
<b>Other comprehensive income</b>	306	100	419	(406)	419
<b>Comprehensive income</b>	\$ 668	\$ 184	\$ 815	\$ (852)	\$ 815

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

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

## CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended September 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Net income</b>	\$ 559	\$ 172	\$ 709	\$ (731)	\$ 709
<b>Other comprehensive income (loss):</b>					
Changes in net unrealized gains (losses) on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(299)	(115)	—	—	(414)
Having credit losses recognized in the consolidated statement of income	(8)	(3)	—	—	(11)
Net changes in benefit plan assets and obligations	—	1	21	—	22
Net changes in unrealized foreign currency translation	6	(6)	—	—	—
<b>Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries</b>	<b>(301)</b>	<b>(123)</b>	<b>21</b>	<b>—</b>	<b>(403)</b>
Income tax expense (benefit)	(67)	(24)	3	—	(88)
<b>Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries</b>	<b>(234)</b>	<b>(99)</b>	<b>18</b>	<b>—</b>	<b>(315)</b>
Other comprehensive loss of subsidiaries	—	—	(333)	333	—
<b>Other comprehensive loss</b>	<b>(234)</b>	<b>(99)</b>	<b>(315)</b>	<b>333</b>	<b>(315)</b>
<b>Comprehensive income</b>	<b>\$ 325</b>	<b>\$ 73</b>	<b>\$ 394</b>	<b>\$ (398)</b>	<b>\$ 394</b>

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

For the nine months ended September 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Net income</b>	\$ 1,499	\$ 376	\$ 1,749	\$ (1,875)	\$ 1,749
<b>Other comprehensive income:</b>					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	2,192	933	4	—	3,129
Having credit losses recognized in the consolidated statement of income	(2)	—	—	—	(2)
Net changes in benefit plan assets and obligations	—	2	38	—	40
Net changes in unrealized foreign currency translation	9	(29)	—	—	(20)
<b>Other comprehensive income before income taxes and other comprehensive income of subsidiaries</b>	2,199	906	42	—	3,147
Income tax expense	460	197	6	—	663
<b>Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries</b>	1,739	709	36	—	2,484
Other comprehensive income of subsidiaries	—	—	2,448	(2,448)	—
<b>Other comprehensive income</b>	1,739	709	2,484	(2,448)	2,484
<b>Comprehensive income</b>	\$ 3,238	\$ 1,085	\$ 4,233	\$ (4,323)	\$ 4,233

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

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

## CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

For the nine months ended September 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Net income</b>	\$ 1,568	\$ 460	\$ 1,902	\$ (2,028)	\$ 1,902
<b>Other comprehensive income (loss):</b>					
Changes in net unrealized gains (losses) on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(1,346)	(568)	(1)	—	(1,915)
Having credit losses recognized in the consolidated statement of income	(19)	(6)	—	—	(25)
Net changes in benefit plan assets and obligations	—	1	64	—	65
Net changes in unrealized foreign currency translation	(96)	(56)	—	—	(152)
<b>Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries</b>	(1,461)	(629)	63	—	(2,027)
Income tax expense (benefit)	(300)	(122)	9	—	(413)
<b>Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries</b>	(1,161)	(507)	54	—	(1,614)
Other comprehensive loss of subsidiaries	—	—	(1,668)	1,668	—
<b>Other comprehensive loss</b>	(1,161)	(507)	(1,614)	1,668	(1,614)
<b>Comprehensive income (loss)</b>	\$ 407	\$ (47)	\$ 288	\$ (360)	\$ 288



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

At September 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Assets</b>					
Fixed maturities, available for sale, at fair value (amortized cost \$65,021)	\$ 46,887	\$ 21,033	\$ 91	\$ —	\$ 68,011
Equity securities, at fair value (cost \$375)	103	114	195	—	412
Real estate investments	1	962	—	—	963
Short-term securities	2,485	653	1,459	—	4,597
Other investments	2,682	754	1	—	3,437
<b>Total investments</b>	<b>52,158</b>	<b>23,516</b>	<b>1,746</b>	<b>—</b>	<b>77,420</b>
Cash	220	288	—	—	508
Investment income accrued	397	176	2	—	575
Premiums receivable	5,491	2,631	—	—	8,122
Reinsurance recoverables	6,416	1,746	—	—	8,162
Ceded unearned premiums	746	111	—	—	857
Deferred acquisition costs	2,133	188	—	—	2,321
Contractholder receivables	4,792	10	—	—	4,802
Goodwill	2,580	1,358	—	(9)	3,929
Other intangible assets	219	110	—	—	329
Investment in subsidiaries	—	—	29,665	(29,665)	—
Other assets	2,332	252	632	—	3,216
<b>Total assets</b>	<b>\$ 77,484</b>	<b>\$ 30,386</b>	<b>\$ 32,045</b>	<b>\$ (29,674)</b>	<b>\$ 110,241</b>
<b>Liabilities</b>					
Claims and claim adjustment expense reserves	\$ 35,445	\$ 16,167	\$ —	\$ —	\$ 51,612
Unearned premium reserves	10,412	4,500	—	—	14,912
Contractholder payables	4,792	10	—	—	4,802
Payables for reinsurance premiums	342	231	—	—	573
Deferred taxes	306	(147)	29	—	188
Debt	693	—	5,865	—	6,558
Other liabilities	4,497	956	536	—	5,989
<b>Total liabilities</b>	<b>56,487</b>	<b>21,717</b>	<b>6,430</b>	<b>—</b>	<b>84,634</b>
<b>Shareholders' equity</b>					
Common stock (1,750.0 shares authorized; 258.1 shares issued and outstanding)	—	584	23,432	(584)	23,432
Additional paid-in capital	11,634	7,046	—	(18,680)	—
Retained earnings	8,185	776	36,325	(8,969)	36,317
Accumulated other comprehensive income	1,178	263	625	(1,441)	625
Treasury stock, at cost (519.3 shares)	—	—	(34,767)	—	(34,767)
<b>Total shareholders' equity</b>	<b>20,997</b>	<b>8,669</b>	<b>25,615</b>	<b>(29,674)</b>	<b>25,607</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 77,484</b>	<b>\$ 30,386</b>	<b>\$ 32,045</b>	<b>\$ (29,674)</b>	<b>\$ 110,241</b>

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

At December 31, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Assets</b>					
Fixed maturities, available for sale, at fair value (amortized cost \$63,601)	\$ 43,683	\$ 19,697	\$ 84	\$ —	\$ 63,464
Equity securities, 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
<b>Total investments</b>	<b>48,391</b>	<b>22,260</b>	<b>1,627</b>	<b>—</b>	<b>72,278</b>
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
<b>Total assets</b>	<b>\$ 71,507</b>	<b>\$ 30,492</b>	<b>\$ 29,268</b>	<b>\$ (27,034)</b>	<b>\$ 104,233</b>
<b>Liabilities</b>					
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
<b>Total liabilities</b>	<b>52,369</b>	<b>22,635</b>	<b>6,367</b>	<b>(32)</b>	<b>81,339</b>
<b>Shareholders' equity</b>					
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)
<b>Total shareholders' equity</b>	<b>19,138</b>	<b>7,857</b>	<b>22,901</b>	<b>(27,002)</b>	<b>22,894</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 71,507</b>	<b>\$ 30,492</b>	<b>\$ 29,268</b>	<b>\$ (27,034)</b>	<b>\$ 104,233</b>

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**15. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued**
**CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)**

For the nine months ended September 30, 2019

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Cash flows from operating activities</b>					
Net income	\$ 1,499	\$ 376	\$ 1,749	\$ (1,875)	\$ 1,749
Net adjustments to reconcile net income to net cash provided by operating activities	1,502	604	(47)	(15)	2,044
<b>Net cash provided by operating activities</b>	<b>3,001</b>	<b>980</b>	<b>1,702</b>	<b>(1,890)</b>	<b>3,793</b>
<b>Cash flows from investing activities</b>					
Proceeds from maturities of fixed maturities	3,404	1,482	9	—	4,895
Proceeds from sales of investments:					
Fixed maturities	1,142	658	1	—	1,801
Equity securities	42	57	—	—	99
Other investments	261	85	—	—	346
Purchases of investments:					
Fixed maturities	(5,551)	(2,670)	(13)	—	(8,234)
Equity securities	(1)	(57)	(4)	—	(62)
Real estate investments	—	(95)	—	—	(95)
Other investments	(323)	(46)	—	—	(369)
Net sales (purchases) of short-term securities	(630)	101	(88)	—	(617)
Securities transactions in course of settlement	312	120	—	—	432
Other	(239)	(4)	—	—	(243)
<b>Net cash used in investing activities</b>	<b>(1,583)</b>	<b>(369)</b>	<b>(95)</b>	<b>—</b>	<b>(2,047)</b>
<b>Cash flows from financing activities</b>					
Treasury stock acquired — share repurchase authorization	—	—	(1,125)	—	(1,125)
Treasury stock acquired — net employee share-based compensation	—	—	(47)	—	(47)
Dividends paid to shareholders	—	—	(633)	—	(633)
Payment of debt	—	(32)	(500)	32	(500)
Issuance of debt	—	—	492	—	492
Issuance of common stock — employee share options	—	—	206	—	206
Dividends paid to parent company	(1,379)	(479)	—	1,858	—
<b>Net cash used in financing activities</b>	<b>(1,379)</b>	<b>(511)</b>	<b>(1,607)</b>	<b>1,890</b>	<b>(1,607)</b>
Effect of exchange rate changes on cash	—	(4)	—	—	(4)
Net increase in cash	39	96	—	—	135
Cash at beginning of year	181	192	—	—	373
<b>Cash at end of period</b>	<b>\$ 220</b>	<b>\$ 288</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 508</b>
<b>Supplemental disclosure of cash flow information</b>					
Income taxes paid (received)	\$ 333	\$ 118	\$ (84)	\$ —	\$ 367
Interest paid	\$ 40	\$ —	\$ 191	\$ —	\$ 231

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued**
**15. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES, Continued**
**CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)**

For the nine months ended September 30, 2018

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
<b>Cash flows from operating activities</b>					
Net income	\$ 1,568	\$ 460	\$ 1,902	\$ (2,028)	\$ 1,902
Net adjustments to reconcile net income to net cash provided by operating activities	1,156	373	(126)	127	1,530
<b>Net cash provided by operating activities</b>	<b>2,724</b>	<b>833</b>	<b>1,776</b>	<b>(1,901)</b>	<b>3,432</b>
<b>Cash flows from investing activities</b>					
Proceeds from maturities of fixed maturities	4,197	1,439	19	—	5,655
Proceeds from sales of investments:					
Fixed maturities	2,219	965	1	—	3,185
Equity securities	39	82	6	—	127
Real estate investments	—	8	—	—	8
Other investments	198	72	—	—	270
Purchases of investments:					
Fixed maturities	(7,625)	(3,215)	(22)	—	(10,862)
Equity securities	(3)	(74)	(9)	—	(86)
Real estate investments	(1)	(56)	—	—	(57)
Other investments	(329)	(63)	—	—	(392)
Net sales (purchases) of short-term securities	364	209	(117)	—	456
Securities transactions in course of settlement	113	60	—	—	173
Acquisition, net of cash acquired	—	(4)	—	—	(4)
Other	(225)	(7)	—	—	(232)
<b>Net cash used in investing activities</b>	<b>(1,053)</b>	<b>(584)</b>	<b>(122)</b>	<b>—</b>	<b>(1,759)</b>
<b>Cash flows from financing activities</b>					
Treasury stock acquired — share repurchase authorization	—	—	(1,100)	—	(1,100)
Treasury stock acquired — net employee share-based compensation	—	—	(51)	—	(51)
Dividends paid to shareholders	—	—	(611)	—	(611)
Payment of debt	—	—	(600)	—	(600)
Issuance of debt	—	7	591	(7)	591
Issuance of common stock — employee share options	—	—	117	—	117
Dividends paid to parent company	(1,653)	(255)	—	1,908	—
<b>Net cash used in financing activities</b>	<b>(1,653)</b>	<b>(248)</b>	<b>(1,654)</b>	<b>1,901</b>	<b>(1,654)</b>
Effect of exchange rate changes on cash	(1)	(3)	—	—	(4)
Net increase (decrease) in cash	17	(2)	—	—	15
Cash at beginning of year	157	187	—	—	344
<b>Cash at end of period</b>	<b>\$ 174</b>	<b>\$ 185</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 359</b>
<b>Supplemental disclosure of cash flow information</b>					
Income taxes paid (received)	\$ 198	\$ 172	\$ (126)	\$ —	\$ 244
Interest paid	\$ 40	\$ —	\$ 185	\$ —	\$ 225

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

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

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

**FINANCIAL HIGHLIGHTS**

**2019 Third Quarter Consolidated Results of Operations**

- Net income of \$396 million, or \$1.52 per share basic and \$1.50 per share diluted
- Net earned premiums of \$7.18 billion
- Catastrophe losses of \$241 million (\$190 million after-tax)
- Net unfavorable prior year reserve development of \$294 million (\$232 million after-tax)
- Combined ratio of 101.5%
- Net investment income of \$622 million (\$528 million after-tax)
- Operating cash flows of \$2.00 billion

**2019 Third Quarter Consolidated Financial Condition**

- Total investments of \$77.42 billion; fixed maturities and short-term securities comprised 94% of total investments
- Total assets of \$110.24 billion
- Total debt of \$6.56 billion, resulting in a debt-to-total capital ratio of 20.4% (22.0% excluding net unrealized investment gains, net of tax)
- Repurchased 2.5 million common shares for total cost of \$375 million and paid \$214 million of dividends to shareholders
- Shareholders' equity of \$25.61 billion
- Net unrealized investment gains of \$2.99 billion (\$2.35 billion after-tax)
- Book value per common share of \$99.21
- Holding company liquidity of \$1.51 billion

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

## CONSOLIDATED OVERVIEW

## Consolidated Results of Operations

(in millions, except ratio and per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Premiums	\$ 7,179	\$ 6,882	\$ 21,022	\$ 20,114
Net investment income	622	646	1,852	1,844
Fee income	121	109	346	324
Net realized investment gains	23	29	101	54
Other revenues	68	57	197	150
<b>Total revenues</b>	<b>8,013</b>	<b>7,723</b>	<b>23,518</b>	<b>22,486</b>
<b>Claims and expenses</b>				
Claims and claim adjustment expenses	5,230	4,655	14,493	13,513
Amortization of deferred acquisition costs	1,169	1,117	3,420	3,259
General and administrative expenses	1,098	1,059	3,280	3,234
Interest expense	84	86	261	265
<b>Total claims and expenses</b>	<b>7,581</b>	<b>6,917</b>	<b>21,454</b>	<b>20,271</b>
<b>Income before income taxes</b>	<b>432</b>	<b>806</b>	<b>2,064</b>	<b>2,215</b>
Income tax expense	36	97	315	313
<b>Net income</b>	<b>\$ 396</b>	<b>\$ 709</b>	<b>\$ 1,749</b>	<b>\$ 1,902</b>
<b>Net income per share</b>				
Basic	\$ 1.52	\$ 2.65	\$ 6.65	\$ 7.03
Diluted	\$ 1.50	\$ 2.62	\$ 6.59	\$ 6.97
<b>Combined ratio</b>				
Loss and loss adjustment expense ratio	72.0%	66.9%	68.1%	66.5%
Underwriting expense ratio	29.5	29.7	29.8	30.3
<b>Combined ratio</b>	<b>101.5%</b>	<b>96.6%</b>	<b>97.9%</b>	<b>96.8%</b>

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

*Overview*

Diluted net income per share of \$1.50 in the third quarter of 2019 decreased by 43% from diluted net income per share of \$2.62 in the same period of 2018. Net income of \$396 million in the third quarter of 2019 decreased by 44% from net income of \$709 million in the same period of 2018. The lower rate of decrease in diluted net income per share reflected the impact of share repurchases in recent periods. The decrease in income before income taxes primarily reflected the pre-tax impacts of (i) net unfavorable prior year reserve development in the third quarter of 2019, versus net favorable prior year reserve development in the same period of 2018, (ii) lower underwriting margins excluding catastrophe losses and prior year reserve development ("underlying underwriting margins") and (iii) lower net investment income, partially offset by (iv) lower catastrophe losses. Catastrophe losses in the third quarters of 2019 and 2018 were \$241 million and \$264 million, respectively. Net unfavorable prior year reserve development in the third quarter of 2019 was \$294 million, compared with net favorable prior year reserve development of \$14 million in the same period of 2018. Underlying underwriting margins in each of the Company's business segments in the third quarter of 2019 were lower than in the same period of 2018. Income tax expense in the third quarter of 2019 was lower than in the same period of 2018, primarily reflecting the impacts of (i) the decrease in income before income taxes, partially offset by

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

(ii) the reduction in income tax expense in the third quarter of 2018 resulting from the Company's \$200 million voluntary contribution to its qualified domestic pension plan in the third quarter of 2018, which provided a 35% tax benefit rather than a 21% tax benefit.

Diluted net income per share of \$6.59 in the first nine months of 2019 decreased by 5% from diluted net income per share of \$6.97 in the same period of 2018. Net income of \$1.75 billion in the first nine months of 2019 decreased by 8% from net income of \$1.90 billion in the same period of 2018. The lower rate of decrease in diluted net income per share reflected the impact of share repurchases in recent periods. The decrease in income before income taxes primarily reflected the pre-tax impacts of (i) net unfavorable prior year reserve development in the first nine months of 2019, versus net favorable prior year reserve development in the same period of 2018 and (ii) lower underlying underwriting margins, partially offset by (iii) lower catastrophe losses and (iv) higher net realized investment gains. Catastrophe losses in the first nine months of 2019 and 2018 were \$801 million and \$1.11 billion, respectively. Net unfavorable prior year reserve development in the first nine months of 2019 was \$120 million, compared with net favorable prior year reserve development of \$350 million in the same period of 2018. Underlying underwriting margins in each of the Company's business segments in the first nine months of 2019 were lower than in the same period of 2018. Income tax expense in the first nine months of 2019 was slightly higher than in the same period of 2018, primarily reflecting the impacts of (i) the reduction in income tax expense in the first nine months of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018, largely offset by (ii) the decrease in income before income taxes.

The Company has insurance operations in Canada, the United Kingdom, the Republic of Ireland and throughout other parts of the world as a corporate member of Lloyd's, as well as in Brazil and Colombia, primarily through joint ventures. Because these operations are conducted in local currencies other than the U.S. dollar, the Company is subject to changes in foreign currency exchange rates. For the three months and nine months ended September 30, 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 third quarter of 2019 were \$7.18 billion, \$297 million or 4% higher than in the same period of 2018. Earned premiums in the first nine months of 2019 were \$21.02 billion, \$908 million or 5% higher than in the same period of 2018. In Business Insurance, earned premiums in both the third quarter and first nine months of 2019 increased by 4% over the same periods of 2018. In Bond & Specialty Insurance, earned premiums in the third quarter and first nine months of 2019 increased by 6% and 5%, respectively, over the same periods of 2018. In Personal Insurance, earned premiums in both the third quarter and first nine 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.

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Average investments <sup>(1)</sup>	\$ 74,910	\$ 73,059	\$ 74,475	\$ 72,787
Pre-tax net investment income	622	646	1,852	1,844
After-tax net investment income	528	547	1,572	1,567
Average pre-tax yield <sup>(2)</sup>	3.3%	3.5%	3.3%	3.4%
Average after-tax yield <sup>(2)</sup>	2.8%	3.0%	2.8%	2.6%

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

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

Net investment income in the third quarter of 2019 was \$622 million, \$24 million or 4% lower than in the same period of 2018. Net investment income in the first nine months of 2019 was \$1.85 billion, slightly higher than in the same period of 2018. Net investment income from fixed maturity investments in the third quarter and first nine months of 2019 was \$520 million and \$1.55

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

billion, respectively, \$22 million and \$77 million higher, respectively, than in the same periods of 2018. The increase in the third quarter of 2019 primarily resulted from a higher average level of fixed maturity investments and slightly higher interest rates. The increase in the first nine months of 2019 primarily resulted from a higher average level of fixed maturity investments and higher long-term interest rates. Net investment income from short-term securities in the third quarter and first nine months of 2019 was \$26 million and \$81 million, respectively, \$1 million and \$16 million higher, respectively, than in the same periods of 2018. The increase in the first nine months of 2019 primarily resulted from higher short-term interest rates. Net investment income generated by the Company's remaining investment portfolios in the third quarter and first nine months of 2019 was \$85 million and \$256 million, \$49 million and \$85 million lower, respectively, than in the same periods of 2018, primarily resulting from lower returns from private equity limited partnerships and real estate partnerships.

*Fee Income*

Fee income in the third quarter and first nine months of 2019 was \$121 million and \$346 million, respectively, \$12 million and \$22 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Other-than-temporary impairment losses	\$ —	\$ —	\$ (2)	\$ (1)
Net realized investment gains on equity securities still held	4	2	49	5
Other net realized investment gains, including from sales	19	27	54	50
<b>Total</b>	<b>\$ 23</b>	<b>\$ 29</b>	<b>\$ 101</b>	<b>\$ 54</b>

*Other Revenues*

Other revenues in the third quarters and first nine 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 third quarter of 2019 were \$5.23 billion, \$575 million or 12% higher than in the same period of 2018, primarily reflecting the impacts of (i) net unfavorable prior year reserve development in the third quarter of 2019, versus net favorable prior year reserve development in the same period of 2018, (ii) loss cost trends, (iii) higher loss estimates in the general liability product line for primary and excess coverages (including management liability) and in the commercial automobile product line, including the re-estimation of losses incurred in the first six months of 2019, (iv) higher business volumes and (v) higher non-catastrophe weather-related losses, partially offset by (vi) lower catastrophe losses and (vii) lower loss estimates in the workers' compensation product line, including the re-estimation of losses incurred in the first six months of 2019. Catastrophe losses in the third quarter of 2019 primarily resulted from wind and hail storms in several regions of the United States and Hurricane Dorian. Catastrophe losses in the third quarter of 2018 primarily resulted from Hurricane Florence, wind and hail storms in several regions of the United States and a wildfire in California.

Claims and claim adjustment expenses in the first nine months of 2019 were \$14.49 billion, \$980 million or 7% higher than in the same period of 2018, primarily reflecting the impacts of (i) net unfavorable prior year reserve development in the first nine months of 2019, versus net favorable prior year reserve development in the same period of 2018, (ii) loss cost trends, (iii) higher non-catastrophe weather-related losses, (iv) higher loss estimates in the commercial automobile product line and in the general liability product line for primary and excess coverages and (v) higher business volumes, partially offset by (vi) lower catastrophe losses, (vii) a lower level of domestic large losses and (viii) lower loss estimates in the workers' compensation product line. Catastrophe losses in the first nine months of 2019 and 2018 included the third quarter events described above, as well as winter storms and wind storms in several regions of the United States in the first half of 2019, and winter storms in the eastern United States, wind and hail storms in several regions of the United States and mudslides in California in the first half of 2018.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

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

**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 nine months ended September 30, 2019 and 2018, the amount of net unfavorable (favorable) prior year reserve development recognized in the three months and nine months ended September 30, 2019 and 2018 for significant catastrophes that occurred in 2018 and 2017, and the estimate of ultimate losses for those catastrophes at September 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.

(in millions, pre-tax and net of reinsurance)	Losses Incurred/Unfavorable (Favorable) Prior Year Reserve Development					
	Three Months Ended September 30,		Nine Months Ended September 30,		Estimated Ultimate Losses	
	2019	2018	2019	2018	September 30, 2019	December 31, 2018
<b>2017</b>						
PCS Serial Number:						
22 — Severe wind and hail storms	1	—	(1)	(2)	108	109
32 — Severe wind and hail storms	1	(2)	2	18	231	229
43 — Hurricane Harvey	(4)	2	(18)	(23)	212	230
44 — Hurricane Irma	(1)	(12)	(9)	(31)	150	159
48 — California wildfire — Tubbs fire	2	(2)	(4)	2	504	508
<b>2018</b>						
PCS Serial Number:						
15 — Winter storm	(1)	6	(5)	144	139	144
17 — Severe wind and hail storms	(1)	(8)	(4)	113	107	111
33 — Severe wind and hail storms	—	15	(2)	110	115	117
52 — Hurricane Florence	(5)	118	(15)	118	91	106
57 — Hurricane Michael	(3)	n/a	3	n/a	161	158
59 — California wildfire - Camp fire	4	n/a	2	n/a	336	334
60 — California wildfire - Woolsey fire	—	n/a	9	n/a	128	119
<b>2019</b>						
PCS Serial Number:						
33 — Severe wind storms	47	n/a	232	n/a	232	n/a

n/a: not applicable.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

*Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the third quarter of 2019 was \$1.17 billion, \$52 million or 5% higher than in the same period of 2018. Amortization of deferred acquisition costs in the first nine months of 2019 was \$3.42 billion, \$161 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 third quarter of 2019 were \$1.10 billion, \$39 million or 4% higher than in the same period of 2018. General and administrative expenses in the first nine months of 2019 were \$3.28 billion, \$46 million or 1% higher than in 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 third quarter and first nine months of 2019 was \$84 million and \$261 million, respectively, compared with \$86 million and \$265 million, respectively, in the same periods of 2018.

*Income Tax Expense*

Income tax expense in the third quarter of 2019 was \$36 million, \$61 million or 63% lower than in the same period of 2018, primarily reflecting the impacts of (i) the \$374 million decrease in income before income taxes in the third quarter of 2019, partially offset by (ii) the reduction in income tax expense in the third quarter of 2018 resulting from the Company's \$200 million voluntary contribution to its qualified domestic pension plan in the third quarter of 2018, which provided a 35% tax benefit rather than a 21% tax benefit. Income tax expense in the first nine months of 2019 was \$315 million, \$2 million or 1% higher than in the same period of 2018, primarily reflecting the impacts of (i) the reduction in income tax expense in the first nine months of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018, largely offset by (ii) the \$151 million decrease in income before income taxes in the first nine months of 2019.

The Company's effective tax rate was 8% and 12% in the third quarters of 2019 and 2018, respectively. The Company's effective tax rate was 15% and 14% in the first nine 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 101.5% in the third quarter of 2019 was 4.9 points higher than the combined ratio of 96.6% in the same period of 2018. The loss and loss adjustment expense ratio of 72.0% in the third quarter of 2019 was 5.1 points higher than the loss and loss adjustment expense ratio of 66.9% in the same period of 2018. The underwriting expense ratio of 29.5% for the third quarter of 2019 was 0.2 points lower than the underwriting expense ratio of 29.7% in the same period of 2018.

Catastrophe losses in the third quarters of 2019 and 2018 accounted for 3.3 points and 3.8 points, respectively, of the combined ratio. Net unfavorable prior year reserve development in the third quarter of 2019 accounted for 4.1 points of the combined ratio. Net favorable prior year reserve development in third quarter of 2018 provided 0.2 points of benefit to the combined ratio. The combined ratio excluding prior year reserve development and catastrophe losses ("underlying combined ratio") in the third quarter of 2019 was 1.1 points higher than the 2018 ratio on the same basis, primarily reflecting the impact of (i) higher loss estimates in the general liability product line for primary and excess coverages (including management liability) and in the commercial automobile product line, including the re-estimation of losses incurred in the first six months 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) lower loss estimates in the workers' compensation product line, including the re-estimation of losses incurred in the first six months of 2019.

The combined ratio of 97.9% in the first nine months of 2019 was 1.1 points higher than the combined ratio of 96.8% in the same period of 2018. The loss and loss adjustment expense ratio of 68.1% for the first nine months of 2019 was 1.6 points higher than the loss and loss adjustment expense ratio of 66.5% in the same period of 2018. The underwriting expense ratio of 29.8% for the first nine months of 2019 was 0.5 points lower than the underwriting expense ratio of 30.3% in the same period of 2018.

Catastrophe losses in the first nine months of 2019 and 2018 accounted for 3.8 points and 5.5 points, respectively, of the combined ratio. Net unfavorable prior year reserve development in the first nine months of 2019 accounted for 0.6 points of the combined

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

ratio. Net favorable prior year reserve development in the first nine months of 2018 provided 1.7 points of benefit to the combined ratio. The underlying combined ratio in the first nine months of 2019 was 0.5 points higher than the 2018 ratio on the same basis, primarily reflecting the impacts of (i) higher non-catastrophe weather-related losses and (ii) higher loss estimates in the commercial automobile product line and in the general liability product line for primary and excess coverages, partially offset by (iii) a lower level of domestic large losses and (iv) lower loss estimates in the workers' compensation product line.

In recent periods, both prior year reserve development and the underlying combined ratio have been impacted by adverse developments in the tort environment, including more aggressive attorney involvement in insurance claims.

*Written Premiums*

Consolidated gross and net written premiums were as follows:

(in millions)	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Business Insurance	\$ 4,271	\$ 3,992	\$ 13,194	\$ 12,501
Bond & Specialty Insurance	770	673	2,179	1,985
Personal Insurance	2,981	2,797	8,312	7,823
<b>Total</b>	<b>\$ 8,022</b>	<b>\$ 7,462</b>	<b>\$ 23,685</b>	<b>\$ 22,309</b>

(in millions)	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Business Insurance	\$ 3,889	\$ 3,648	\$ 11,926	\$ 11,423
Bond & Specialty Insurance	728	644	2,025	1,871
Personal Insurance	2,952	2,770	8,125	7,723
<b>Total</b>	<b>\$ 7,569</b>	<b>\$ 7,062</b>	<b>\$ 22,076</b>	<b>\$ 21,017</b>

Gross and net written premiums in third quarter and first nine months of 2019 reflected growth in all segments. Gross written premiums in the third quarter and first nine months of 2019 increased by 8% and 6%, respectively, over the same periods of 2018. Net written premiums in the third quarter and first nine months of 2019 increased by 7% and 5%, respectively, over the same periods of 2018. Net written premium growth in the first nine 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.

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

## RESULTS OF OPERATIONS BY SEGMENT

## Business Insurance

Results of Business Insurance were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Earned premiums	\$ 3,882	\$ 3,743	\$ 11,407	\$ 10,952
Net investment income	457	482	1,365	1,368
Fee income	114	103	329	309
Other revenues	39	33	112	84
<b>Total revenues</b>	<b>4,492</b>	<b>4,361</b>	<b>13,213</b>	<b>12,713</b>
<b>Total claims and expenses</b>	<b>4,319</b>	<b>3,911</b>	<b>12,136</b>	<b>11,279</b>
<b>Segment income before income taxes</b>	<b>173</b>	<b>450</b>	<b>1,077</b>	<b>1,434</b>
<b>Income tax expense (benefit)</b>	<b>(6)</b>	<b>40</b>	<b>133</b>	<b>187</b>
<b>Segment income</b>	<b>\$ 179</b>	<b>\$ 410</b>	<b>\$ 944</b>	<b>\$ 1,247</b>
Loss and loss adjustment expense ratio	76.6%	69.6%	71.3%	67.4%
Underwriting expense ratio	30.4	31.0	30.8	31.6
<b>Combined ratio</b>	<b>107.0%</b>	<b>100.6%</b>	<b>102.1%</b>	<b>99.0%</b>

*Overview*

Segment income in the third quarter of 2019 was \$179 million, \$231 million or 56% lower than segment income of \$410 million in the same period of 2018. The decrease in segment income before income taxes primarily reflected the pre-tax impacts of (i) higher net unfavorable prior year reserve development, (ii) lower net investment income and (iii) slightly lower underlying underwriting margins, partially offset by (iv) lower catastrophe losses. Catastrophe losses in the third quarters of 2019 and 2018 were \$116 million and \$136 million, respectively. Net unfavorable prior year reserve development in the third quarters of 2019 and 2018 was \$316 million and \$56 million, respectively. The slightly lower underlying underwriting margins primarily reflected the impacts of (i) higher loss estimates in the commercial automobile product line and in the general liability product line for primary and excess coverages, including the re-estimation of losses incurred in the first six months of 2019 and (ii) the impact on earned premiums related to the Company's new catastrophe reinsurance treaty, partially offset by (iii) higher business volumes and (iv) lower loss estimates in the workers' compensation product line, including the re-estimation of losses incurred in the first six months of 2019. The income tax benefit in the third quarter of 2019 was \$(6) million, compared with income tax expense of \$40 million in the same period of 2018, primarily reflecting the impacts of (i) the decrease in income before income taxes, partially offset by (ii) the reduction in income tax expense in the third quarter of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018.

Segment income in the first nine months of 2019 was \$944 million, \$303 million or 24% lower than segment income of \$1.25 billion in the same period of 2018. The decrease in segment income before income taxes primarily reflected the pre-tax impacts of (i) net unfavorable prior year reserve development in the first nine months of 2019, versus net favorable prior year reserve development in the same period of 2018 and (ii) slightly lower underlying underwriting margins, partially offset by (iii) lower catastrophe losses. Catastrophe losses in the first nine months of 2019 and 2018 were \$422 million and \$442 million, respectively. Net unfavorable prior year reserve development in the first nine months of 2019 was \$266 million. Net favorable prior year reserve development in the first nine months of 2018 was \$94 million. The slightly lower underlying underwriting margins primarily reflected the impacts of (i) higher loss estimates in the commercial automobile product line and in the general liability product line for primary and excess coverages and (ii) the impact on earned premiums related to the Company's new catastrophe reinsurance treaty, partially offset by (iii) higher business volumes, (iv) a lower level of domestic large losses and (v) lower loss estimates in the workers' compensation product line. Income tax expense in the first nine months of 2019 was lower than in the same period of 2018, primarily reflecting the impacts of (i) the decrease in income before income taxes, partially offset by (ii) the reduction

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

in income tax expense in the first nine months of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018.

**Revenues**

*Earned Premiums*

Earned premiums in the third quarter of 2019 were \$3.88 billion, \$139 million or 4% higher than in the same period of 2018. Earned premiums in the first nine months of 2019 were \$11.41 billion, \$455 million or 4% 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 third quarter of 2019 was \$457 million, \$25 million or 5% lower than in the same period of 2018. Net investment income in the first nine months of 2019 was \$1.37 billion, comparable with 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 changes in the Company's consolidated net investment income in the third quarter and first nine 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 third quarter of 2019 was \$114 million, \$11 million or 11% higher than in the same period of 2018. Fee income in the first nine months of 2019 was \$329 million, \$20 million or 6% 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 third quarters and first nine 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 third quarter of 2019 were \$39 million, \$6 million or 18% higher than in the same period of 2018. Other revenues in the first nine months of 2019 were \$112 million, \$28 million or 33% 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 third quarter of 2019 were \$3.03 billion, \$375 million or 14% higher than in the same period of 2018, primarily reflecting the impacts of (i) higher net unfavorable prior year reserve development, (ii) loss cost trends, (iii) higher loss estimates in the commercial automobile product line and in the general liability product line for primary and excess coverages, including the re-estimation of losses incurred in the first six months of 2019 and (iv) higher business volumes, partially offset by (v) lower loss estimates in the workers' compensation product line, including the re-estimation of losses incurred in the first six months of 2019 and (vi) lower catastrophe losses

Claims and claim adjustment expenses in the first nine months of 2019 were \$8.29 billion, \$765 million or 10% higher than in the same period of 2018, primarily reflecting the impacts of (i) net unfavorable prior year reserve development in the first nine months of 2019, versus net favorable prior year reserve development in the same period of 2018, (ii) loss cost trends, (iii) higher loss estimates in the commercial automobile product line and in the general liability product line for primary and excess coverages and (iv) higher business volumes, partially offset by (v) a lower level of domestic large losses, (vi) lower loss estimates in the workers' compensation product line and (vii) lower catastrophe losses

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

*Amortization of Deferred Acquisition Costs*

Amortization of deferred acquisition costs in the third quarter of 2019 was \$634 million, \$24 million or 4% higher than in the same period of 2018. Amortization of deferred acquisition costs in the first nine months of 2019 was \$1.87 billion, \$89 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 third quarter of 2019 were \$657 million, \$9 million or 1% higher than in the same period of 2018. General and administrative expenses in the first nine months of 2019 were \$1.98 billion, comparable with the same period of 2018.

*Income Tax Expense (Benefit)*

The income tax benefit in the third quarter of 2019 was \$(6) million, compared with income tax expense of \$40 million in the same period of 2018, primarily reflecting the impacts of (i) the \$277 million decrease in income before income taxes, partially offset by (ii) the reduction in income tax expense in the third quarter of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018. Income tax in the first nine months of 2019 was \$133 million, \$54 million or 29% lower than in the same period of 2018, primarily reflecting the impacts of (i) the \$357 million decrease in income before income taxes, partially offset by (ii) the reduction in income tax expense in the first nine months of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018.

**Combined Ratio**

The combined ratio of 107.0% in the third quarter of 2019 was 6.4 points higher than the combined ratio of 100.6% in the same period of 2018. The loss and loss adjustment expense ratio of 76.6% in the third quarter of 2019 was 7.0 points higher than the loss and loss adjustment expense ratio of 69.6% in the same period of 2018. The underwriting expense ratio of 30.4% for the third quarter of 2019 was 0.6 points lower than the underwriting expense ratio of 31.0% in the same period of 2018.

Catastrophe losses in the third quarters of 2019 and 2018 accounted for 3.0 points and 3.7 points, respectively, of the combined ratio. Net unfavorable prior year reserve development in the third quarters of 2019 and 2018 accounted for 8.1 points and 1.5 points of the combined ratio, respectively. The underlying combined ratio in the third quarter of 2019 was 0.5 points higher than the 2018 ratio on the same basis, primarily reflecting the impacts of (i) higher loss estimates in the commercial automobile product line and in the general liability product line for primary and excess coverages, including the re-estimation of losses incurred in the first six months of 2019 and (ii) the impact on earned premiums related to the Company's new catastrophe reinsurance treaty, partially offset by (iii) lower loss estimates in the workers' compensation product line, including the re-estimation of losses incurred in the first six months of 2019 and (iv) a lower underwriting expense ratio.

The combined ratio of 102.1% in the first nine months of 2019 was 3.1 points higher than the combined ratio of 99.0% in the same period of 2018. The loss and loss adjustment expense ratio of 71.3% in the first nine months of 2019 was 3.9 points higher than the loss and loss adjustment expense ratio of 67.4% in the same period of 2018. The underwriting expense ratio of 30.8% for the first nine months of 2019 was 0.8 points lower than the underwriting expense ratio of 31.6% in the same period of 2018.

Catastrophe losses in the first nine months of 2019 and 2018 accounted for 3.7 points and 4.1 points, respectively, of the combined ratio. Net unfavorable prior year reserve development in the first nine months of 2019 accounted for 2.3 points of the combined ratio. Net favorable prior year reserve development in the first nine months of 2018 provided 0.9 points of benefit to the combined ratio. The underlying combined ratio in the first nine months of 2019 was 0.3 points higher than the 2018 ratio on the same basis, primarily reflecting the impacts of (i) higher loss estimates in the commercial automobile product line and in the general liability product line for primary and excess coverages and (ii) the impact on earned premiums related to the Company's new catastrophe reinsurance treaty, partially offset by (iii) a lower level of domestic large losses, (iv) lower loss estimates in the workers' compensation product line and (v) a lower underwriting expense ratio.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

*Written Premiums*

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

(in millions)	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Domestic:				
Select Accounts	\$ 698	\$ 668	\$ 2,270	\$ 2,181
Middle Market	2,271	2,125	6,946	6,560
National Accounts	377	359	1,211	1,220
National Property and Other	675	580	1,811	1,586
<b>Total Domestic</b>	<b>4,021</b>	3,732	<b>12,238</b>	11,547
International	250	260	956	954
<b>Total Business Insurance</b>	<b>\$ 4,271</b>	\$ 3,992	<b>\$ 13,194</b>	\$ 12,501

(in millions)	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Domestic:				
Select Accounts	\$ 695	\$ 666	\$ 2,236	\$ 2,168
Middle Market	2,150	2,032	6,569	6,279
National Accounts	273	238	800	778
National Property and Other	553	485	1,528	1,383
<b>Total Domestic</b>	<b>3,671</b>	3,421	<b>11,133</b>	10,608
International	218	227	793	815
<b>Total Business Insurance</b>	<b>\$ 3,889</b>	\$ 3,648	<b>\$ 11,926</b>	\$ 11,423

Gross written premiums in the third quarter and first nine months of 2019 increased by 7% and 6%, respectively, over the same periods of 2018. Net written premiums in the third quarter and first nine months of 2019 increased by 7% and 4%, respectively, over the same periods of 2018. Net written premium growth in the first nine 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 \$695 million in the third quarter of 2019 increased by 4% over the same period of 2018. Net written premiums of \$2.24 billion in the first nine months of 2019 increased by 3% over the same period of 2018. Net written premiums in the first nine months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the third quarter and first nine months of 2019. Renewal premium changes in the third quarter and first nine months of 2019 remained positive and were higher than in the same periods of 2018. New business premiums in the third quarter and first nine months of 2019 increased over the same periods of 2018.

*Middle Market.* Net written premiums of \$2.15 billion in the third quarter of 2019 increased by 6% over the same period of 2018. Net written premiums of \$6.57 billion in the first nine months of 2019 increased by 5% over the same period of 2018. Net written premiums in the first nine months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the third quarter and first nine months of 2019. Renewal premium changes in the third quarter and first nine months of 2019 remained positive and were higher than in the same periods of 2018. New business premiums in the third quarter of 2019 increased over the same period of 2018. New business premiums in the first nine months of 2019 decreased from the same period of 2018.

*National Accounts.* Net written premiums of \$273 million in the third quarter of 2019 increased by 15% over the same period of 2018. Net written premiums of \$800 million in the first nine months of 2019 increased by 3% over the same period of 2018. Net written premiums in the third quarter and first nine months of 2019 included a benefit related to a transaction to close out prior



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**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

year liabilities with a former customer. Business retention rates remained strong in the third quarter and first nine months of 2019. Renewal premium changes in the third quarter of 2019 were positive and higher than in the same period of 2018. Renewal premium changes in the first nine months of 2019 were slightly positive but lower than in the same period of 2018. New business premiums in the third quarter and first nine months of 2019 increased over the same periods of 2018.

*National Property and Other.* Net written premiums of \$553 million in the third quarter of 2019 increased by 14% over the same period of 2018. Net written premiums of \$1.53 billion in the first nine months of 2019 increased by 10% over the same period of 2018. Net written premiums in the first nine months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the third quarter and first nine months of 2019. Renewal premium changes in the third quarter and first nine months of 2019 remained positive and were higher than in the same periods of 2018. New business premiums in the third quarter and first nine months of 2019 increased over the same periods of 2018.

*International.* Net written premiums of \$218 million in the third quarter of 2019 decreased by 4% from the same period of 2018. Net written premiums of \$793 million in the first nine months of 2019 decreased by 3% from the same period of 2018. The decreases in the third quarter and first nine 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:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Earned premiums	\$ 653	\$ 617	\$ 1,891	\$ 1,800
Net investment income	59	57	173	172
Other revenues	7	5	19	16
<b>Total revenues</b>	<b>719</b>	<b>679</b>	<b>2,083</b>	<b>1,988</b>
<b>Total claims and expenses</b>	<b>550</b>	<b>435</b>	<b>1,521</b>	<b>1,277</b>
<b>Segment income before income taxes</b>	<b>169</b>	<b>244</b>	<b>562</b>	<b>711</b>
<b>Income tax expense</b>	<b>30</b>	<b>48</b>	<b>111</b>	<b>138</b>
<b>Segment income</b>	<b>\$ 139</b>	<b>\$ 196</b>	<b>\$ 451</b>	<b>\$ 573</b>
Loss and loss adjustment expense ratio	45.7%	33.1%	42.2%	32.8%
Underwriting expense ratio	37.6	37.1	37.6	37.6
<b>Combined ratio</b>	<b>83.3%</b>	<b>70.2%</b>	<b>79.8%</b>	<b>70.4%</b>

**Overview**

Segment income in the third quarter of 2019 was \$139 million, \$57 million or 29% lower than segment income of \$196 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 and (ii) lower underlying underwriting margins. Net favorable prior year reserve development in the third quarters of 2019 and 2018 was \$3 million and \$53 million, respectively. Catastrophe losses in the third quarters of 2019 and 2018 were \$1 million and \$4 million, respectively. The lower underlying underwriting margins primarily reflected modestly higher loss estimates in the domestic general liability product line for management liability coverages, including the re-estimation of losses incurred in the first six months of 2019, compared with lower loss estimates for those coverages in the same period of 2018. Income tax expense in the third 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.

Segment income in the first nine months of 2019 was \$451 million, \$122 million or 21% lower than segment income of \$573 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 and (ii) lower underlying underwriting margins. Net favorable prior



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

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year reserve development in the first nine months of 2019 and 2018 was \$45 million and \$177 million, respectively. Catastrophe losses in the first nine months of 2019 and 2018 were \$4 million and \$9 million, respectively. The lower underlying underwriting margins primarily reflected modestly higher loss estimates in the domestic general liability product line for management liability coverages, compared with lower loss estimates for those coverages in the same period of 2018. Income tax expense in the first nine 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.

**Revenues**

*Earned Premiums*

Earned premiums in the third quarter of 2019 were \$653 million, \$36 million or 6% higher than in the same period of 2018. Earned premiums in the first nine months of 2019 were \$1.89 billion, \$91 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 third quarter of 2019 was \$59 million, \$2 million or 4% higher than in the same period of 2018. Net investment income in the first nine months of 2019 was \$173 million, 1% higher 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 changes in the Company's consolidated net investment income in the third quarter and first nine 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 third quarter of 2019 were \$303 million, \$98 million or 48% higher than in the same period of 2018, primarily reflecting the impacts of (i) lower net favorable prior year reserve development, (ii) higher business volumes and (iii) modestly higher loss estimates in the domestic general liability product line for management liability coverages, including the re-estimation of losses for the first six months of 2019, compared with lower loss estimates for those coverages in the same period of 2018.

Claims and claim adjustment expenses in the first nine months of 2019 were \$807 million, \$211 million or 35% higher than in the same period of 2018, primarily reflecting the impacts of (i) lower net favorable prior year reserve development, (ii) higher business volumes and (iii) modestly higher loss estimates in the domestic general liability product line for management liability coverages, compared with lower loss estimates for those coverages in the same period of 2018.

Factors contributing to net favorable prior year reserve development during the third quarters and first nine 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 third quarter of 2019 was \$123 million, \$6 million or 5% higher than in the same period of 2018. Amortization of deferred acquisition costs in the first nine months of 2019 was \$353 million, \$16 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 third quarter of 2019 were \$124 million, \$11 million or 10% higher than in the same period of 2018. General and administrative expenses in the first nine months of 2019 were \$361 million, \$17 million or 5% higher than in the same period of 2018. The increases in both periods of 2019 primarily reflected the impact of higher business volumes.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

*Income Tax Expense*

Income tax expense in the third quarter of 2019 was \$30 million, \$18 million or 38% lower than in the same period of 2018, primarily reflecting the impact of the \$75 million decrease in segment income before income taxes. Income tax expense in the first nine months of 2019 was \$111 million, \$27 million or 20% lower than in the same period of 2018, primarily reflecting the impact of the \$149 million decrease in segment income before income taxes.

**Combined Ratio**

The combined ratio of 83.3% in the third quarter of 2019 was 13.1 points higher than the combined ratio of 70.2% in the same period of 2018. The loss and loss adjustment expense ratio of 45.7% in the third quarter of 2019 was 12.6 points higher than the loss and loss adjustment expense ratio of 33.1% in the same period of 2018. The underwriting expense ratio of 37.6% in the third quarter of 2019 was 0.5 points higher than the underwriting expense ratio of 37.1% in the same period of 2018.

Net favorable prior year reserve development in the third quarters of 2019 and 2018 provided 0.5 points and 8.7 points of benefit, respectively, to the combined ratio. Catastrophe losses in the third quarters of 2019 and 2018 accounted for 0.2 points and 0.6 points, respectively, of the combined ratio. The underlying combined ratio in the third quarter of 2019 was 5.3 points higher than the 2018 ratio on the same basis, primarily reflecting the impact of modestly higher loss estimates in the domestic general liability product line for management liability coverages, including the re-estimation of losses for the first six months of 2019, compared with lower loss estimates for those coverages in the same period of 2018.

The combined ratio of 79.8% in the first nine months of 2019 was 9.4 points higher than the combined ratio of 70.4% in the same period of 2018. The loss and loss adjustment expense ratio of 42.2% in the first nine months of 2019 was 9.4 points higher than the loss and loss adjustment expense ratio of 32.8% in the same period of 2018. The underwriting expense ratio of 37.6% in the first nine months of 2019 was level with the underwriting expense ratio in the same period of 2018.

Net favorable prior year reserve development in the first nine months of 2019 and 2018 provided 2.3 points and 9.9 points of benefit, respectively, to the combined ratio. Catastrophe losses in the first nine months of 2019 and 2018 accounted for 0.2 points and 0.5 points, respectively, of the combined ratio. The underlying combined ratio in the first nine months of 2019 was 2.1 points higher than the 2018 ratio on the same basis, primarily reflecting the impact of modestly higher loss estimates in the domestic general liability product line for management liability coverages, compared with lower loss estimates for those coverages in the same period of 2018.

*Written Premiums*

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

(in millions)	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Domestic:				
Management Liability	\$ 455	\$ 398	\$ 1,276	\$ 1,140
Surety	242	226	715	684
<b>Total Domestic</b>	<b>697</b>	<b>624</b>	<b>1,991</b>	<b>1,824</b>
International	73	49	188	161
<b>Total Bond &amp; Specialty Insurance</b>	<b>\$ 770</b>	<b>\$ 673</b>	<b>\$ 2,179</b>	<b>\$ 1,985</b>

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

(in millions)	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Domestic:				
Management Liability	\$ 424	\$ 379	\$ 1,194	\$ 1,089
Surety	232	217	660	637
<b>Total Domestic</b>	<b>656</b>	<b>596</b>	<b>1,854</b>	<b>1,726</b>
International	72	48	171	145
<b>Total Bond &amp; Specialty Insurance</b>	<b>\$ 728</b>	<b>\$ 644</b>	<b>\$ 2,025</b>	<b>\$ 1,871</b>

Gross and net written premiums in the third quarter of 2019 increased by 14% and 13%, respectively, over the same period of 2018. Gross written premiums in the first nine months of 2019 increased by 10% over the same period of 2018. Net written premiums increased at a lower rate of 8% in the first nine 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 \$656 million and \$1.85 billion in the third quarter and first nine months of 2019, respectively, increased by 10% and 7%, 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 third quarter and first nine months of 2019. Renewal premium changes in the third quarter and first nine months of 2019 remained positive and were higher than in the same periods of 2018. New business premiums in the third quarter and first nine months of 2019 increased over the same periods of 2018.

*International.* Net written premiums of \$72 million and \$171 million in the third quarter and first nine months of 2019, respectively, increased by 50% and 18%, respectively, over the same periods of 2018. The increases in both periods of 2019 were primarily driven by increases in the United Kingdom and Canada, 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Earned premiums	\$ 2,644	\$ 2,522	\$ 7,724	\$ 7,362
Net investment income	106	107	314	304
Fee income	7	6	17	15
Other revenues	22	17	65	48
<b>Total revenues</b>	<b>2,779</b>	<b>2,652</b>	<b>8,120</b>	<b>7,729</b>
<b>Total claims and expenses</b>	<b>2,620</b>	<b>2,477</b>	<b>7,512</b>	<b>7,426</b>
<b>Segment income before income taxes</b>	<b>159</b>	<b>175</b>	<b>608</b>	<b>303</b>
<b>Income tax expense</b>	<b>28</b>	<b>22</b>	<b>111</b>	<b>38</b>
<b>Segment income</b>	<b>\$ 131</b>	<b>\$ 153</b>	<b>\$ 497</b>	<b>\$ 265</b>
Loss and loss adjustment expense ratio	71.8%	71.2%	69.8%	73.2%
Underwriting expense ratio	26.2	26.0	26.4	26.7
<b>Combined ratio</b>	<b>98.0%</b>	<b>97.2%</b>	<b>96.2%</b>	<b>99.9%</b>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

*Overview*

Segment income in the third quarter of 2019 was \$131 million, \$22 million or 14% lower than segment income of \$153 million in the same period of 2018. The decrease in segment income before income taxes primarily reflected the pre-tax impact of lower underlying underwriting margins. Catastrophe losses in each of the third quarters of 2019 and 2018 were \$124 million. Net favorable prior year reserve development in the third quarters of 2019 and 2018 was \$19 million and \$17 million, respectively. The lower underlying underwriting margins primarily reflected (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) higher business volumes and (iv) lower other loss activity. Income tax expense in the third quarter of 2019 was higher than in the same period of 2018, primarily reflecting the impacts of (i) the reduction in income tax expense in the third quarter of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018, partially offset by (ii) the decrease in segment income before income taxes.

Segment income in the first nine months of 2019 was \$497 million, \$232 million or 88% higher than segment income of \$265 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, partially offset by (iii) lower underlying underwriting margins. Catastrophe losses in the first nine months of 2019 and 2018 were \$375 million and \$655 million, respectively. Net favorable prior year reserve development in the first nine months of 2019 and 2018 was \$101 million and \$79 million, respectively. The lower underlying underwriting margins primarily reflected (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) higher business volumes, (iv) earned pricing that exceeded loss cost trends in Agency Automobile and (v) lower other loss activity. Income tax expense in the first nine months of 2019 was higher than in the same period of 2018, primarily reflecting the impacts of (i) the increase in segment income before income taxes and (ii) the reduction in income tax expense in the first nine months of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018.

**Revenues**

*Earned Premiums*

Earned premiums in the third quarter of 2019 were \$2.64 billion, \$122 million or 5% higher than in the same period of 2018. Earned premiums in the first nine months of 2019 were \$7.72 billion, \$362 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 third quarter of 2019 was \$106 million, \$1 million or 1% lower than in the same period of 2018. Net investment income in the first nine months of 2019 was \$314 million, \$10 million or 3% 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 changes in the Company's consolidated net investment income in the third quarter and first nine 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 third quarters and first nine 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 third quarter of 2019 were \$1.90 billion, \$102 million or 6% higher than in 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, partially offset by (iv) lower other loss activity.

Claims and claim adjustment expenses in the first nine months of 2019 were \$5.39 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)

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**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

higher business volumes and (iii) loss cost trends, largely offset by (iv) lower catastrophe losses, (v) lower other loss activity and (vi) higher net favorable prior year reserve development.

Factors contributing to net favorable prior year reserve development during the third quarter and first nine 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 third quarter of 2019 was \$412 million, \$22 million or 6% higher than in the same period of 2018. Amortization of deferred acquisition costs in the first nine months of 2019 was \$1.20 billion, \$56 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 third quarter of 2019 were \$309 million, \$19 million or 7% higher than in the same period of 2018. General and administrative expenses in the first nine months of 2019 were \$920 million, \$26 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 third quarter of 2019 was \$28 million, \$6 million or 27% higher than in same period of 2018, primarily reflecting the impacts of (i) the reduction in income tax expense in the third quarter of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018, partially offset by (ii) the \$16 million decrease in segment income before income taxes. Income tax expense in the first nine months of 2019 was \$111 million, \$73 million higher than in the same period of 2018, primarily reflecting the impacts of (i) the \$305 million increase in segment income before income taxes and (ii) the reduction in income tax expense in the first nine months of 2018 resulting from the Company's voluntary contribution to its qualified domestic pension plan in the third quarter of 2018.

**Combined Ratio**

The combined ratio of 98.0% in the third quarter of 2019 was 0.8 points higher than the combined ratio of 97.2% in the same period of 2018. The loss and loss adjustment expense ratio of 71.8% in the third quarter of 2019 was 0.6 points higher than the loss and loss adjustment expense ratio of 71.2% in the same period of 2018. The underwriting expense ratio of 26.2% for the third quarter of 2019 was 0.2 points higher than the underwriting expense ratio of 26.0% in the same period of 2018.

Catastrophe losses in the third quarters of 2019 and 2018 accounted for 4.7 points and 4.9 points, respectively, of the combined ratio. Net favorable prior year reserve development in the third quarters of 2019 and 2018 provided 0.7 points and 0.6 points, respectively, of benefit to the combined ratio. The underlying combined ratio in the third quarter of 2019 was 1.1 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 Company's new catastrophe reinsurance treaty, mostly impacting Agency Homeowners and Other, partially offset by (iii) lower other loss activity.

The combined ratio of 96.2% in the first nine months of 2019 was 3.7 points lower than the combined ratio of 99.9% in the same period of 2018. The loss and loss adjustment expense ratio of 69.8% in the first nine months of 2019 was 3.4 points lower than the loss and loss adjustment expense ratio of 73.2% in the same period of 2018. The underwriting expense ratio of 26.4% in the first nine months of 2019 was 0.3 points lower than the underwriting expense ratio of 26.7% in the same period of 2018.

Catastrophe losses in the first nine months of 2019 and 2018 accounted for 4.9 points and 8.9 points, respectively, of the combined ratio. Net favorable prior year reserve development in the first nine months of 2019 and 2018 provided 1.3 points and 1.1 points of benefit, respectively, to the combined ratio. The underlying combined ratio in the first nine months of 2019 was 0.5 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 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) lower other loss activity.

*Written Premiums*

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

(in millions)	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Domestic:				
Agency:				
Automobile	\$ 1,352	\$ 1,310	\$ 3,896	\$ 3,767
Homeowners and Other	1,316	1,180	3,538	3,201
<b>Total Agency</b>	<b>2,668</b>	<b>2,490</b>	<b>7,434</b>	<b>6,968</b>
Direct-to-Consumer	115	109	316	300
<b>Total Domestic</b>	<b>2,783</b>	<b>2,599</b>	<b>7,750</b>	<b>7,268</b>
International	198	198	562	555
<b>Total Personal Insurance</b>	<b>\$ 2,981</b>	<b>\$ 2,797</b>	<b>\$ 8,312</b>	<b>\$ 7,823</b>

(in millions)	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Domestic:				
Agency:				
Automobile	\$ 1,347	\$ 1,305	\$ 3,871	\$ 3,746
Homeowners and Other	1,300	1,168	3,395	3,137
<b>Total Agency</b>	<b>2,647</b>	<b>2,473</b>	<b>7,266</b>	<b>6,883</b>
Direct-to-Consumer	115	108	313	299
<b>Total Domestic</b>	<b>2,762</b>	<b>2,581</b>	<b>7,579</b>	<b>7,182</b>
International	190	189	546	541
<b>Total Personal Insurance</b>	<b>\$ 2,952</b>	<b>\$ 2,770</b>	<b>\$ 8,125</b>	<b>\$ 7,723</b>

*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 third quarter of 2019 both increased by 7% over the same period of 2018. Domestic Agency gross written premiums in the first nine months of 2019 increased by 7% over the same period of 2018. Domestic Agency net written premiums increased at a lower rate of 6% in the first nine 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 \$1.35 billion and \$3.87 billion in the third quarter and first nine months of 2019, respectively, both increased by 3% over the same periods of 2018. Net written premiums in the first nine months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the third quarter and first nine months of 2019. Renewal premium changes in the third quarter and first nine months of 2019 remained positive but were lower than in the same periods of 2018. New business premiums in the third quarter and first nine months of 2019 increased over the same periods of 2018.

Domestic Agency Homeowners and Other net written premiums of \$1.30 billion and \$3.40 billion in the third quarter and first nine months of 2019, respectively, increased by 11% and 8%, respectively, over the same periods of 2018. Net written premiums in the first nine months of 2019 were reduced by the new catastrophe reinsurance treaty. Business retention rates remained strong in the third quarter and first nine months of 2019. Renewal premium changes in the third quarter and first nine months of 2019 remained positive and were higher than in the same periods of 2018. New business premiums in the third quarter and first nine months of 2019 increased over the same periods of 2018.



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For its Domestic Agency business, the Personal Insurance segment had approximately 7.5 million and 7.1 million active policies at September 30, 2019 and 2018, respectively.

*Direct-to-Consumer and International Written Premiums*

Direct-to-Consumer net written premiums of \$115 million and \$313 million in the third quarter and first nine months of 2019, respectively, increased by 6% and 5%, respectively, over the same periods of 2018, primarily reflecting growth in homeowners and other. Net written premiums in the first nine months of 2019 were reduced by the new catastrophe reinsurance treaty.

International net written premiums of \$190 million and \$546 million in the third quarter and first nine months of 2019, respectively, both increased by 1% over the same periods of 2018, primarily driven by growth in automobile net written premiums, largely offset by the impact of changes in foreign currency exchange rates.

For its international and direct-to-consumer business, Personal Insurance had approximately 889,000 and 904,000 active policies at September 30, 2019 and 2018, respectively.

**Interest Expense and Other**

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income (loss)	\$ (71)	\$ (72)	\$ (222)	\$ (226)

The Income (loss) for Interest Expense and Other in the third quarters of 2019 and 2018 was \$(71) million and \$(72) million, respectively. Pre-tax interest expense in the third quarters of 2019 and 2018 was \$84 million and \$86 million respectively. After-tax interest expense in the third quarters of 2019 and 2018 was \$66 million and \$68 million, respectively. The Income (loss) for Interest Expense and Other in the first nine months of 2019 and 2018 was \$(222) million and \$(226) million, respectively. Pre-tax interest expense in the first nine months of 2019 and 2018 was \$261 million and \$265 million, respectively. After-tax interest expense in the first nine months of 2019 and 2018 was \$206 million and \$209 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

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.

In the third quarter of 2019, the Company completed its annual in-depth asbestos claim review, including a review of active policyholders and litigation cases for potential product and "non-product" liability, and noted the continuation of the following trends:

- a high level of litigation activity in certain jurisdictions involving individuals alleging serious asbestos-related illness, primarily involving mesothelioma claims;
- while overall payment patterns have been generally stable, there has been an increase in severity for certain policyholders due to the high level of litigation activity; and
- a moderate level of asbestos-related bankruptcy activity.

In the home office and field office category, which accounts for the vast majority of policyholders with active asbestos-related claims, the number of policyholders with open asbestos claims and net asbestos-related payments declined slightly when compared to 2018. Payments on behalf of policyholders in this category continue to be influenced by a high level of litigation activity in a limited number of jurisdictions where individuals alleging serious asbestos-related injury, primarily mesothelioma, continue to target defendants who were not traditionally primary targets of asbestos litigation.

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.

The completion of these reviews and analyses in the third quarters of 2019 and 2018 resulted in \$220 million and \$225 million increases, respectively, in the Company's net asbestos reserves. In both 2019 and 2018, the reserve increases were primarily driven by increases in the Company's estimate of projected settlement and defense costs related to a broad number of policyholders in the home office and field office category. The increase in the estimate of projected settlement and defense costs resulted from payment trends that continue to be higher than previously anticipated due to the impact of the current litigation environment surrounding mesothelioma claims discussed above. 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.



## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Net asbestos paid loss and loss expenses in the first nine months of 2019 and 2018 were \$150 million and \$161 million, respectively. Net asbestos reserves were \$1.35 billion at both September 30, 2019 and September 30, 2018.

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

(at and for the nine months ended September 30, in millions)	2019	2018
Beginning reserves:		
Gross	\$ 1,608	\$ 1,538
Ceded	(327)	(257)
Net	<u>1,281</u>	<u>1,281</u>
Incurred losses and loss expenses:		
Gross	268	343
Ceded	(48)	(118)
Net	<u>220</u>	<u>225</u>
Paid loss and loss expenses:		
Gross	191	200
Ceded	(41)	(39)
Net	<u>150</u>	<u>161</u>
Foreign exchange and other:		
Gross	—	—
Ceded	—	—
Net	<u>—</u>	<u>—</u>
Ending reserves:		
Gross	1,685	1,681
Ceded	(334)	(336)
Net	<u>\$ 1,351</u>	<u>\$ 1,345</u>

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

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 \$68 million and \$55 million in the first nine months of 2019 and 2018, respectively.

Net environmental paid loss and loss expenses in the first nine months of 2019 and 2018 were \$57 million and \$43 million, respectively. At September 30, 2019, approximately 95% of the net environmental reserve (approximately \$327 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 \$18 million), consists of case reserves.

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

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

<b>(at and for the nine months ended September 30, in millions)</b>	<b>2019</b>	<b>2018</b>
<b>Beginning reserves:</b>		
Gross	\$ 358	\$ 373
Ceded	(24)	(13)
Net	<u>334</u>	<u>360</u>
<b>Incurred losses and loss expenses:</b>		
Gross	75	71
Ceded	(7)	(16)
Net	<u>68</u>	<u>55</u>
<b>Paid loss and loss expenses:</b>		
Gross	58	47
Ceded	(1)	(4)
Net	<u>57</u>	<u>43</u>
<b>Foreign exchange and other:</b>		
Gross	(1)	—
Ceded	1	—
Net	<u>—</u>	<u>—</u>
<b>Ending reserves:</b>		
Gross	374	397
Ceded	(29)	(25)
Net	<u>\$ 345</u>	<u>\$ 372</u>

**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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

**INVESTMENT PORTFOLIO**

The Company's invested assets at September 30, 2019 were \$77.42 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 September 30, 2019 was \$68.01 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 September 30, 2019 and December 31, 2018. Below investment grade securities represented 2.2% and 2.3% of the total fixed maturity investment portfolio at September 30, 2019 and December 31, 2018, respectively. The weighted average effective duration of fixed maturities and short-term securities was 3.9 (4.2 excluding short-term securities) at September 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 September 30, 2019 and December 31, 2018 included \$29.92 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 September 30, 2019 and December 31, 2018 were \$2.06 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 September 30, 2019 and December 31, 2018.

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

The Company's fixed maturity investment portfolio at September 30, 2019 and December 31, 2018 included \$3.16 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 September 30, 2019 and December 31, 2018 were \$1.43 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 \$1.73 billion and \$1.71 billion at September 30, 2019 and December 31, 2018, respectively. Approximately 52% of the Company's CMO holdings at both September 30, 2019 and December 31, 2018 were guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC. The weighted average credit rating of the \$838 million and \$828 million of non-guaranteed CMO holdings at both September 30, 2019 and December 31, 2018 was "Aa1." The weighted average credit rating of all of the above securities was "Aaa/Aa1" at both September 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.

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued***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 September 30, 2019 and December 31, 2018, the carrying value of the Company's other investments was \$3.44 billion and \$3.56 billion, respectively.

**CATASTROPHE REINSURANCE COVERAGE**

The Company's normal renewals and changes to its catastrophe reinsurance coverage occur in January and July each year. The changes effective in January are discussed in the "Catastrophe Reinsurance" section of "Part I - Item 1 - Business" in the Company's 2018 Annual Report, and the changes effective in July are discussed in the "Catastrophe Reinsurance Coverage" section of "Part I - Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.

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:

<i>(in millions)</i>	September 30, 2019	December 31, 2018
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	\$ 3,392	\$ 3,485
Allowance for uncollectible reinsurance	(94)	(110)
<b>Net reinsurance recoverables</b>	<b>3,298</b>	<b>3,375</b>
Mandatory pools and associations	1,915	2,005
Structured settlements	2,949	2,990
<b>Total reinsurance recoverables</b>	<b>\$ 8,162</b>	<b>\$ 8,370</b>

Net reinsurance recoverables at September 30, 2019 decreased by \$77 million from December 31, 2018, primarily reflecting the impacts of cash collections in the first nine 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 over the next four quarters. In Business Insurance, the Company expects that domestic renewal premium changes over the next four quarters will remain positive and on average will be higher than the average

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

level attained in the same period of 2018 and 2019. In Bond & Specialty Insurance, the Company expects that renewal premium changes with respect to domestic management liability business over the next four quarters will remain positive and on average will be higher than the average level attained in the same period of 2018 and 2019. In Personal Insurance, the Company expects that domestic Agency Automobile renewal premium changes over the next four quarters will remain positive but on average will be lower than the average level attained in the same period of 2018 and 2019. The Company expects that domestic Agency Homeowners and Other renewal premium changes over the next four quarters will remain positive and on average will be higher than the average level attained in the same period 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 over the next four quarters will remain positive and on average will be higher than the average level attained in the same period of 2018 and 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 over the next four quarters 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. As a result of net unfavorable prior year reserve development recognized in the third quarter of 2019, the Company recognized net unfavorable prior year reserve development for the nine months ended September 30, 2019. Given the inherent uncertainty in estimating claims and claim adjustment expense reserves, loss experience could develop such that the Company recognizes 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-



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

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 that for the fourth quarter of 2019, the underlying underwriting margin will be higher, and the underlying combined ratio will be lower, than in the same period of 2018, reflecting the timing impact of higher loss estimates in the commercial automobile product line that were recognized in the fourth quarter of 2018. The Company expects that for the first three quarters of 2020 in the aggregate, the underlying underwriting margin will be higher, and the underlying combined ratio will be lower, than in the same period of 2019, assuming the anticipated impacts of earned pricing in excess of loss cost trends and improved results in the Company’s international business.

In Bond & Specialty Insurance, the Company expects that for the fourth quarter of 2019, the underlying underwriting margin will be slightly lower, and the underlying combined ratio will be higher, than in the same period of 2018, primarily due to modestly higher loss estimates in the domestic general liability product line for management liability coverages. The Company expects that for the first three quarters of 2020 in the aggregate, the underlying underwriting margin will be broadly consistent with the same period of 2019 and the underlying combined ratio will be slightly higher than in the same period of 2019.

In Personal Insurance, the Company expects that for the fourth quarter of 2019, the underlying underwriting margin will be slightly higher, and the underlying combined ratio will be slightly lower, than in the same period of 2018, assuming lower levels of non-catastrophe weather-related losses. The Company expects that for the first three quarters of 2020 in the aggregate, the underlying underwriting margin will be higher, and the underlying combined ratio will be lower, than in the same period of 2019, assuming lower levels of non-catastrophe weather-related losses. In Agency Automobile, the Company expects that for the fourth quarter of 2019, the underlying underwriting margin 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. The Company expects that for the first three quarters of 2020 in the aggregate, the underlying underwriting margin and the underlying combined ratio in Agency Automobile will be broadly consistent with the same period of 2019. In Agency Homeowners and Other, the Company expects that for the next four quarters in the aggregate, the underlying underwriting margin will be higher, and the underlying combined ratio will be lower, than in the same period of 2018 and 2019, assuming lower levels of non-catastrophe weather-related losses.

*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 3.9 (4.2 excluding short-term securities) at September 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 September 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), offset by expected lower reinvestment yields on fixed income investments, the Company expects that for the fourth quarter of 2019, after-tax net investment income from those portfolios will be broadly consistent with the corresponding quarter of 2018. Additionally, based on the impact of expected lower reinvestment yields on fixed income investments, partially offset by slightly higher levels of fixed income investments, the Company expects that for the first three quarters of 2020, after-tax net investment income from those portfolios will be approximately \$10 million to \$15 million lower 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 non-fixed income investment portfolios during the fourth quarter of 2019 and the first three quarters of 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 \$2.99 billion (\$2.35 billion after-tax) in its fixed maturity investment portfolio at September 30, 2019. While the Company does not attempt to predict future interest rate movements, a rising interest

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

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 September 30, 2019, TRV held total cash and short-term invested assets in the United States aggregating \$1.51 billion and having a weighted average maturity of 41



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

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 \$1.51 billion at September 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 September 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 September 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 \$334 million to provide a portion of the capital needed to support its obligations at Lloyd's at September 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 nine months of 2019 and 2018 was \$3.79 billion and \$3.43 billion, respectively. The increase in cash flows in the first nine 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 nine months of 2019 and 2018 was \$2.05 billion and \$1.76 billion, respectively. The Company's consolidated total investments at September 30, 2019 increased by \$5.14 billion, or 7% over year-end 2018, primarily reflecting the impacts of (i) net unrealized gains on investments at September 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 nine 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 nine months of 2019 and 2018 was \$1.61 billion and \$1.65 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 nine months of 2019 and 2018 were \$1.17 billion and \$1.15 billion, respectively.

*Dividends.* Dividends paid to shareholders were \$633 million and \$611 million in the first nine 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 October 22, 2019, the Company announced that it declared a regular quarterly dividend of \$0.82 per share, payable December 31, 2019 to shareholders of record on December 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

**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

(including mergers and acquisitions and related financings), market conditions and other factors. During the three months and nine months ended September 30, 2019, the Company repurchased 2.5 million and 8.0 million shares under its share repurchase authorization, for a total cost of \$375 million and \$1.13 billion, respectively. The average cost per share repurchased was \$147.23 and \$140.35, respectively. At September 30, 2019, the Company had \$2.16 billion of capacity remaining under the share repurchase authorization.

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

(in millions)	September 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	<u>6,558</u>	<u>6,564</u>
Shareholders' equity:		
Common stock and retained earnings, less treasury stock	24,982	24,753
Accumulated other comprehensive income (loss)	625	(1,859)
Total shareholders' equity	<u>25,607</u>	<u>22,894</u>
Total capitalization	<u>\$ 32,165</u>	<u>\$ 29,458</u>

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)	September 30, 2019	December 31, 2018
Total capitalization	\$ 32,165	\$ 29,458
Less: net unrealized gains (losses) on investments, net of taxes, included in shareholders' equity	2,354	(113)
Total capitalization excluding net unrealized gains (losses) on investments, net of taxes, included in shareholders' equity	<u>\$ 29,811</u>	<u>\$ 29,571</u>
Debt-to-total capital ratio	<u>20.4%</u>	22.3%
Debt-to-total capital ratio excluding net unrealized gains (losses) on investments, net of taxes, included in shareholders' equity	<u>22.0%</u>	<u>22.2%</u>

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 22.0% at September 30, 2019 was within the Company's target range of 15% to 25%.

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

## 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 action was taken with respect to the Company since July 23, 2019, the date on which the Company's Form 10-Q for the quarter ended June 30, 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 July 29, 2019, S&P affirmed all ratings of the Company. The outlook for all ratings 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 \$2.06 billion at September 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:

(in millions)	September 30, 2019			December 31, 2018		
	Case	IBNR	Total	Case	IBNR	Total
General liability	\$ 4,875	\$ 7,471	\$ 12,346	\$ 4,780	\$ 7,092	\$ 11,872
Commercial property	1,092	294	1,386	1,157	297	1,454
Commercial multi-peril	2,104	1,994	4,098	2,089	1,886	3,975
Commercial automobile	2,505	1,860	4,365	2,339	1,661	4,000
Workers' compensation	10,257	9,222	19,479	10,299	9,216	19,515
Fidelity and surety	249	327	576	280	288	568
Personal automobile	2,006	1,424	3,430	2,038	1,400	3,438
Homeowners and personal—other	849	959	1,808	942	884	1,826
International and other	2,536	1,574	4,110	2,574	1,431	4,005
Property-casualty	26,473	25,125	51,598	26,498	24,155	50,653
Accident and health	14	—	14	15	—	15
<b>Claims and claim adjustment expense reserves</b>	<b>\$ 26,487</b>	<b>\$ 25,125</b>	<b>\$ 51,612</b>	<b>\$ 26,513</b>	<b>\$ 24,155</b>	<b>\$ 50,668</b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**

The \$944 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, (ii) catastrophe losses in the first nine months of 2019 and (iii) net unfavorable prior year reserve development, partially offset by the impact of (iv) payments related to catastrophe losses incurred in 2018.

**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 potential benefit associated with the Company's ability to recover on its subrogation claims;
- 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 developments in the tort environment, including 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 TRAVELERS COMPANIES, INC. AND SUBSIDIARIES**

**FORWARD-LOOKING STATEMENTS, Continued**

- 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;
- 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,

## THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

### FORWARD-LOOKING STATEMENTS, Continued

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 September 30, 2019. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of September 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 September 30, 2019, the Company consolidated the premium collection of automated clearing house (ACH) and credit card payments for Personal 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 September 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.



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

<b>Period Beginning</b>	<b>Period Ending</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced plans or programs</b>	<b>Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)</b>
July 1, 2019	July 31, 2019	368,773	\$ 148.53	368,347	\$ 2,481
August 1, 2019	August 31, 2019	1,304,712	\$ 146.69	1,304,536	\$ 2,290
September 1, 2019	September 30, 2019	874,304	\$ 147.49	874,278	\$ 2,161
<b>Total</b>		<b>2,547,789</b>	<b>\$ 147.23</b>	<b>2,547,161</b>	<b>\$ 2,161</b>

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 628 shares for a total cost of \$0.1 million during the three months ended September 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

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

**Item 5. OTHER INFORMATION, Continued**

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, Alan D. Schnitzer, Chairman and Chief Executive Officer, was the only "named executive officer" (i.e. an executive officer included in the compensation disclosures in the Company's most recent Proxy Statement filed) that has entered into a Rule 10b5-1 trading plan that remains in effect. Under the Company's stock ownership guidelines, Mr. Schnitzer has a target ownership level established as the lesser of 150,000 shares or the equivalent of 500% of base salary (as such amount is calculated for purposes of the stock ownership guidelines). See "Compensation Discussion and Analysis - Stock Ownership Guidelines, Anti-Hedging and Pledging Policies, and Other Trading Restrictions" in the Company's Proxy Statement.

*Amendment of Bylaws.* The Company's Board of Directors, upon recommendation of the Company's Nominating and Governance Committee, approved an amendment and restatement of the Company's bylaws (as amended and restated, the Amended and Restated Bylaws), effective October 22, 2019. The amendments:

- Clarify in Section 4, Section 5 and Section 6, respectively, of Article IV that the functions of Chief Legal Officer, Chief Investment Officer and Corporate Secretary may each be held by one or more persons.
- Clarify in Section 11(c) of Article II that Section 10 of Article II does not apply to any shareholder proposal made pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, in which case the requirements, procedures, and notice deadlines of Rule 14a-8 govern any proposal made pursuant to such rule.
- Provide certain technical and clarifying updates to Section 10 of Article III regarding requirements of all persons proposed as a nominee for director.

The foregoing summary of the amendments is qualified in its entirety by reference to the Amended and Restated Bylaws, which are attached hereto as Exhibit 3.2 and are incorporated herein by reference.



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

**Item 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	<a href="#">Amended and Restated Articles of Incorporation of The Travelers Companies, Inc., 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.</a>
3.2†	<a href="#">Bylaws of The Travelers Companies, Inc. as Amended and Restated October 22, 2019.</a>
31.1†	<a href="#">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.</a>
31.2†	<a href="#">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.</a>
32.1†	<a href="#">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.</a>
32.2†	<a href="#">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.</a>
101.1†	The following information from The Travelers Companies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 formatted in Inline XBRL: (i) Consolidated Statement of Income for the three months and nine months ended September 30, 2019 and 2018; (ii) Consolidated Statement of Comprehensive Income for the three months and nine months ended September 30, 2019 and 2018; (iii) Consolidated Balance Sheet at September 30, 2019 and December 31, 2018; (iv) Consolidated Statement of Changes in Shareholders' Equity for the three months and nine months ended September 30, 2019 and 2018; (v) Consolidated Statement of Cash Flows for the nine months ended September 30, 2019 and 2018; (vi) Notes to Consolidated Financial Statements; and (vii) the cover page.
104.1	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit 101.1).

† 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: October 22, 2019 By

/S/ CHRISTINE K. KALLA

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

Date: October 22, 2019 By

/S/ DOUGLAS K. RUSSELL

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

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**Section 2: EX-3.2 (EXHIBIT 3.2)**

**Exhibit 3.2**

BYLAWS

OF

THE TRAVELERS COMPANIES, INC.

AS AMENDED AND RESTATED OCTOBER 22, 2019

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of the corporation required by Chapter 302A of the Minnesota Statutes (“Chapter 302A”) to be maintained in the State of Minnesota is 385 Washington Street, St. Paul, Minnesota 55102.

Section 2. Principal Executive Office. The principal executive office of the corporation, where the Chief Executive Officer of the corporation has an office, is 485 Lexington Avenue, New York, New York 10017.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 1. Place of Meetings. Each meeting of the shareholders shall be held at the principal executive office of the corporation or at such other place as may be designated by the board of directors or the Chief Executive Officer. But any meeting called by or at the demand of a shareholder or shareholders shall be held in the county where the principal executive office of the corporation is located. The board of directors may determine that a meeting of the shareholders shall not be held at a physical

place, but instead solely by means of remote communication. Participation by remote communication constitutes presence at the meeting.

Section 2. Regular Annual Meeting. A regular annual meeting of shareholders shall be held on such day in each calendar year as shall be determined by the board for the purpose of electing directors and for the transaction of any other business appropriate for action by the shareholders.

Section 3. Special Meetings. Special meetings of the shareholders may be called at any time by the Chief Executive Officer or the Chief Financial Officer, by a shareholder or shareholders holding ten percent or more of the voting power of all shares entitled to vote, or as otherwise provided by Chapter 302A; except that a special meeting called by shareholders for the purpose of considering any action to directly or indirectly facilitate or effect a business combination, including any action to change or otherwise affect the composition of the board of directors for that purpose, must be called by twenty-five

percent or more of the voting power of all shares entitled to vote. A shareholder or shareholders holding the requisite voting power may demand a special meeting of shareholders only by giving the written notice of demand required by law. Special meetings shall be held on the date and at the time and place fixed as provided by law.

Section 4. Notice. Notice of all meetings of shareholders shall be given to every holder of shares entitled to vote in the manner and pursuant to the requirements of Chapter 302A. Any meeting of shareholders may be adjourned from time to time to another date, time and place. If any meeting of shareholders is so adjourned, no notice of such adjourned meeting need be given if the date, time and place at which the meeting will be reconvened are announced at the time of adjournment and the adjourned meeting is held not more than 120 days after the date fixed for the original meeting.

Section 5. Record Date. The board or an officer so authorized by the board shall fix a record date not more than 60 days before the date of a meeting of shareholders as the date for the determination of the holders of voting shares entitled to notice of and to vote at the meeting.

Section 6. Quorum. The holders of a majority of the voting power of the shares entitled to vote at a meeting present in person or by proxy at the meeting are a quorum for the transaction of business. If a quorum is present when a meeting is convened, the shareholders present may continue to transact business until adjournment *sine die*, even though the withdrawal of a number of shareholders originally present leaves less than the proportion otherwise required for a quorum.

Section 7. Voting Rights. Unless otherwise provided in the terms of the shares, a shareholder has one vote for each share held on a record date. A shareholder may cast a vote in person or by proxy. Such vote shall be by written ballot unless the chairman of the meeting determines to request a voice vote on a particular matter.

Section 8. Proxies. The chairman of the meeting shall, after shareholders have had a reasonable opportunity to vote and file proxies, close the polls after which no further ballots, proxies, or revocations shall be received or considered.

Section 9. Act of the Shareholders. Except as otherwise provided by Chapter 302A or by the amended and restated articles of incorporation of the corporation, the shareholders shall take action by the affirmative vote of the holders of a majority of the voting power of the shares present and entitled to vote on that item of business.

Section 10. Business of the Meeting.

(a) At any annual meeting of shareholders, only such business (other than the nomination and election of directors, which is subject to Section 11 or Section 12 of this Article II) shall be conducted as shall have been brought before the meeting (i) by or at the direction of the board or (ii) by any shareholder of the corporation who (A) was a shareholder of record of the corporation at the time of the giving of notice provided for in

this bylaw and at the time of the annual meeting, (B) is entitled to vote with respect thereto and (C) complies with the notice procedures set forth in this Section 10. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Corporate Secretary. To be timely, a shareholder's notice must be received at the principal executive office of the corporation not less than 90 days nor more than 120 days prior to the first anniversary of the date of the preceding year's annual meeting of shareholders; *provided*, however, that in the event that the annual meeting of shareholders is more than 30 days before or 70 days after such anniversary date or if no such meeting was held in the preceding year, notice by a shareholder shall be timely only if received (a) not earlier than 120 days prior to such annual meeting and (b) not less than 90 days before such annual meeting or, if later, within 10 days after the first public announcement of the date of such annual meeting. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. A shareholder's notice to the Corporate Secretary shall set forth as to each matter such shareholder proposes to bring before the annual meeting:

(I) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting;

(II) the name and address, as they appear on the corporation's share register, of the shareholder proposing such business and the name and address of any beneficial owner on whose behalf the proposal is made;

(III) (1) the class or series and number of shares of the corporation's capital stock that are, directly or indirectly, beneficially owned by such shareholder or any such beneficial owner, (2) any option, warrant, convertible security, stock appreciation right, swap, or similar right or agreement with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, or which is intended to increase or decrease (or has the effect of increasing or decreasing) the voting power of any proponent person with respect to the shares of any class or series of shares of the corporation, whether or not such instrument or right or agreement shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise (a "Derivative Instrument"), owned beneficially, directly or indirectly, by such shareholder or any such beneficial owner and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of the shares of the corporation, (3) a description of any proxy, contract, arrangement, understanding or relationship pursuant to which such shareholder or any such beneficial owner has a right, or has given any other person a right, to vote any shares of the corporation or influence the voting over any such shares, (4) any short interest of such

shareholder or any such beneficial owner in any security of the corporation (for purposes of these bylaws, a person shall be deemed to have a "short interest" in a security if such person has, directly or indirectly, the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (5) any rights to dividends on the shares of the corporation owned beneficially, directly or indirectly, by such shareholder or any such beneficial owner that are separated or separable from the underlying shares of the corporation, (6) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by or through any entity, including without limitation, a general or limited partnership in which such shareholder or any such beneficial owner is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (7) any performance-related fees (other than an asset-based fee) that such shareholder or any such beneficial owner is entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, as of the date of such notice, including without limitation any such interests held by members of such shareholder's or any such beneficial owner's immediate family sharing the same household;

(IV) a representation that the shareholder is a holder of record of stock of the corporation at the time of the giving of notice provided for in this bylaw, is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business;

(V) a representation whether the shareholder or any such beneficial owner intends or is part of a group which intends (1) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal and/or (2) otherwise to solicit proxies from shareholders in support of such proposal;

(VI) a representation whether the shareholder is being financed or indemnified by any third party for making this proposal; and

(VII) any material interest, agreement, undertaking or arrangement of such shareholder or any such beneficial owner relating to such business.

(b) A shareholder providing notice of business proposed to be brought before a meeting, including with respect to nominations of directors pursuant to Section 11 or Section 12 of this Article II, shall further update and supplement such notice and other information provided to the corporation so that the information provided or required to be provided in such notice under this Section 10, Section 11 and Section 12 of this Article II, as the case may be, shall be true and correct as of the record date for the meeting and as of the date that is 10 business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered in writing to the Corporate Secretary at the principal executive offices of the corporation not later than 10 days after the record date of the meeting (in the case of the update and supplement

required to be made as of the record date), and not later than eight business days prior to the date for the meeting or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of 10 business days prior to the meeting or any adjournment or postponement thereof). Notwithstanding anything in these bylaws to the contrary, no business shall be brought before or conducted at the annual meeting except in accordance with the provisions of this Section 10 and, with respect to nomination of directors, Section 11 or Section 12 of this Article II. The officer of the corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 10 and, with respect to nomination of directors, Section 11 or Section 12 of this Article II, as the case may be, and, if he or she shall so determine, he or she shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

(c) At any special meeting of shareholders, the business transacted shall be limited to the purposes stated in the notice of the meeting. With respect to a special meeting held pursuant to the demand of a shareholder or shareholders, (i) the purposes shall be limited to those specified in the demand in the event that the shareholder or shareholders are entitled by law to call the meeting because the board does not do so, and (ii) no later than 10 days after the shareholder or shareholders demanding such special meeting has or have delivered their written notice of demand required by law with respect to such special meeting, such shareholder or shareholders shall deliver in writing to the Corporate Secretary the information required by clauses (I) through (VII) of paragraph (a) of this Section 10 (which information shall be updated by the shareholder or shareholders as required by paragraph (b) of this Section 10).

#### Section 11. Nomination of Directors.

(a) Only persons who are nominated in accordance with the procedures set forth in these bylaws shall be eligible for election as directors. Nominations of persons for election to the board of the corporation may be made at a meeting of shareholders at which directors are to be elected only (i) by or at the direction of the board of directors, (ii) by any shareholder of the corporation who (A) was a shareholder of record of the corporation at the time of the giving of notice provided for in this bylaw and at the time of meeting, (B) is entitled to vote for the election of directors at the meeting, and (C) complies with the notice procedures set forth in this Section 11, or (iii) by any shareholder or group of shareholders of the corporation in compliance with Section 12 of this Article II. Any nomination pursuant to clause (ii) above shall be made by timely notice in writing to the Corporate Secretary in accordance with this Section 11. To be timely, a shareholder's notice must be received at the principal executive office of the corporation not less than 90 days nor more than 120 days prior to the first anniversary of the date of the preceding year's annual meeting of shareholders; *provided*, however, that in the event that the annual meeting of shareholders is more than 30 days before or 70 days after such anniversary date or if no such meeting was held in the preceding year,

notice by a shareholder shall be timely only if received (a) not earlier than 120 days prior to such annual meeting and (b) not less than 90 days before such annual meeting or, if later, within 10 days after the first public announcement of the date of such annual meeting. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. Such shareholder's notice shall set forth (I) as to each person whom such shareholder proposes to nominate for election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and (II) as to the shareholder giving the notice (1) the name and address, as they appear on the corporation's share register, of such shareholder and of any beneficial owner on whose behalf the nomination is made and (2) the information required by clauses (I) through (VII) of Section 10(a) (which information shall be updated by the shareholder or shareholders as required by Section 10(b) of this Article II), and shall be accompanied by the written consent of each such person to serve as a director of the corporation, if elected. In addition, each person whom such shareholder proposes to nominate for director shall be required to provide to the Corporate Secretary promptly upon request the questionnaire, representation and agreement required by Section 10 of Article III.

(b) At the request of the board, any person nominated by the board for election as a director shall furnish to the Corporate Secretary that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. The officer of the corporation or other person presiding at the meeting shall, if the facts so warrant, determine and declare to the meeting that a nomination was not made in accordance with such provisions and, if he or she shall so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

(c) Any references in these bylaws to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit any requirements applicable to nominations or proposals as to any other business to be considered pursuant to these bylaws (including Sections 10, 11 and 12 of this Article II), and compliance with Sections 10, 11 and 12 of this Article II, as the case may be, shall be the exclusive means for a shareholder to make nominations or submit other business. Notwithstanding the foregoing, Section 10 of this Article II does not apply to any shareholder proposal made pursuant to Rule 14a-8 under the Exchange Act, in which case the requirements, procedures, and notice deadlines of Rule 14a-8 shall govern any proposal made pursuant thereto.

#### Section 12. Proxy Access.

(a) Whenever the board solicits proxies with respect to the election of directors at an annual meeting of shareholders, in addition to any persons nominated for election to the



board by or at the direction of the board, the corporation shall, subject to the provisions of this Section 12,

(i) include in its proxy statement for such annual meeting of shareholders:

(A) the name of any person nominated for election (the “Shareholder Nominee”) by a shareholder of the corporation who (x) was a shareholder of record of the corporation as of the date that the Notice of Proxy Access Nomination (as defined below) is received by the corporation in accordance with this Section 12, (y) is entitled to vote for the election of directors at the annual meeting and (z) satisfies the notice, ownership and other requirements of this Section 12 (such shareholder of record, together with the beneficial owner of such shares, a “Nominator”), or by a group of such shareholders of record of the corporation (such shareholders of record, together with the beneficial owners of such shares, a “Nominator Group”) that, collectively as a Nominator Group, satisfies the notice, ownership and other requirements of this Section 12 applicable to a Nominator Group, and each member thereof, including the beneficial owners of such shares (each, a “Group Member”), shall have satisfied the conditions and complied with the requirements set forth in this Section 12 applicable to Group Members; and

(B) the Nomination Statement (as defined below) furnished by such Nominator or Nominator Group; and

(ii) include such Shareholder Nominee’s name on any ballot distributed at such annual meeting and on the corporation’s proxy card (or any other format through which the corporation permits proxies to be submitted) distributed in connection with such annual meeting. Nothing in this Section 12 shall limit the corporation’s ability to solicit against, and include in its proxy materials its own statements relating to, any Shareholder Nominee, Nominator, Nominator Group or Group Member, or to include such Shareholder Nominee as a nominee of the board.

(b) (i) At each annual meeting, a Nominator or Nominator Group may nominate one or more Shareholder Nominees for election at such meeting pursuant to this Section 12; *provided*, that the maximum number of Shareholder Nominees (including any Shareholder Nominee that was submitted by a Nominator or Nominator Group for inclusion in the corporation’s proxy materials pursuant to this Section 12 but was subsequently withdrawn, disregarded pursuant to this Section 12 or declared invalid or ineligible) appearing in the corporation’s proxy materials with respect to an annual meeting shall not exceed the greater of two directors or 20% of the number of directors in office as of the Final Proxy Access Deadline (as defined below), or if such number is not a whole number, the closest whole number below 20% (the “Maximum Number”). If one or more vacancies for any reason occurs on the board at any time after the Final Proxy Access Deadline but before the date of the applicable annual meeting and the board determines to reduce the size of the board in connection

therewith, the Maximum Number shall be calculated based on the number of directors in office as so reduced.

The Maximum Number shall be reduced, but not below zero, by the sum of:

(w) the number of individuals who will be included in the corporation's proxy materials as nominees recommended by the board pursuant to an agreement, arrangement or other understanding with a stockholder or group of stockholders;

(x) the number of Shareholder Nominees that the board itself decides to nominate for election at such annual meeting;

(y) the number of individuals that the board decides to nominate for re-election who were Shareholder Nominees with respect to one of the previous three annual meetings; and

(z) the number of Shareholder Nominees who were disqualified or whose nomination was withdrawn or otherwise deemed invalid pursuant to the last paragraph of this Section 12(b)(i).

Any Nominator or Nominator Group submitting more than one Shareholder Nominee for inclusion in the corporation's proxy materials pursuant to this Section 12 shall rank in its Notice of Proxy Access Nomination such Shareholder Nominees based on the order that the Nominator or Nominator Group desires such Shareholder Nominees to be selected for inclusion in the corporation's proxy materials in the event that the total number of Shareholder Nominees submitted by Nominators or Nominator Groups pursuant to this Section 12 exceeds the Maximum Number. In the event that the number of Shareholder Nominees submitted by Nominators or Nominator Groups pursuant to this Section 12 exceeds the Maximum Number, the highest ranking Shareholder Nominee who meets the requirements of this Section 12 from each Nominator and Nominator Group will be selected for inclusion in the corporation's proxy materials until the Maximum Number is reached, beginning with the Nominator or Nominator Group with the largest number of shares of common stock of the corporation disclosed as owned (as defined below) in its Notice of Proxy Access Nomination submitted to the corporation and proceeding through each Nominator or Nominator Group in descending order of ownership. If the Maximum Number is not reached after the highest ranking Shareholder Nominee who meets the requirements of this Section 12 from each Nominator and Nominator Group has been selected, this process will continue as many times as necessary, following the same order each time, until the Maximum Number is reached or there are no remaining Shareholder Nominees.

If, after the Final Proxy Access Deadline, whether before or after the mailing of the corporation's definitive proxy statement, (A) a Shareholder Nominee becomes ineligible for inclusion in the corporation's proxy materials pursuant to this Section 12, becomes unwilling to serve on the board, dies, becomes disabled or is otherwise

disqualified from being nominated for election or serving as a director of the corporation or (B) a Nominator or Nominator Group withdraws its nomination or becomes ineligible, in each case as determined by the board or the chairman of the meeting, then the board or the chairman of the meeting shall declare each nomination by such Nominator or Nominator Group to be invalid, and each such nomination shall be disregarded. Further, the corporation (x) may omit from its proxy materials information concerning such Shareholder Nominee or any successor or replacement nominee proposed by the Nominator or Nominator Group or by any other Nominator or Nominator Group and (y) may otherwise communicate to its shareholders, including without limitation by amending or supplementing its proxy materials, that the Shareholder Nominee will not be eligible for election at the annual meeting and will not, or will no longer, be included as a Shareholder Nominee in the proxy materials.

(ii) To nominate a Shareholder Nominee, the Nominator or Nominator Group shall submit to the Corporate Secretary the information required by this subsection (ii) on a timely basis. To be timely, the information must be received at the principal executive office of the corporation not less than 120 days nor more than 150 days prior to the first anniversary of the date on which the corporation's definitive proxy statement was released to shareholders in connection with the preceding year's annual meeting of shareholders; *provided*, however, that in the event that the annual meeting of shareholders is more than 30 days before or 70 days after the first anniversary of the date of the preceding year's annual meeting of shareholders or if no annual meeting was held in the preceding year, the information must be so received not earlier than 120 days prior to such annual meeting and not later than the close of business on (x) the 90th day before such annual meeting or (y) if later, within 10 days after the first public announcement of the date of such annual meeting (the last day on which a Notice of Proxy Access Nomination may be delivered, the "Final Proxy Access Deadline"); *provided further*, that in no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period (or extend any time period) for the receipt of the information required by this subsection (ii). The information required by this subsection (ii) shall consist of:

(A) a written notice (such written notice, the "Notice of Proxy Access Nomination") of the nomination of the Shareholder Nominee(s) that expressly requests that each Shareholder Nominee be included in the corporation's proxy materials pursuant to this Section 12 and includes:

(I) all information relating to each Shareholder Nominee that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act;

(II) the name and address of each shareholder of record of the Required Shares (as defined below), as they appear on the corporation's share register,

and the name and address of each beneficial owner on whose behalf the nomination is made;

(III) a representation that the Nominator (or a qualified representative thereof) or, in the case of a Nominator Group, one specified Group Member (or a qualified representative thereof), intends to appear in person at the meeting to present each Shareholder Nominee for election; and

(IV) the class or series and number of shares of the corporation's capital stock that are, directly or indirectly, beneficially owned by each shareholder of record of the Required Shares and each beneficial owner on whose behalf the nomination is made, (2) any Derivative Instrument (as defined in Section 10 of this Article II) owned beneficially, directly or indirectly, by such shareholder or beneficial owner and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of the shares of the corporation, (3) a description of any proxy, contract, arrangement, understanding or relationship pursuant to which such shareholder or beneficial owner has a right, or has given any other person a right, to vote any shares of the corporation or influence the voting over any such shares, (4) any short interest of such shareholder or beneficial owner in any security of the corporation (as described in Section 10 of this Article II), (5) any rights to dividends on the shares of the corporation owned beneficially, directly or indirectly, by such shareholder or beneficial owner that are separated or separable from the underlying shares of the corporation, (6) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by or through any entity, including without limitation, a general or limited partnership in which such shareholder or beneficial owner is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (7) any performance-related fees (other than an asset-based fee) that such shareholder or beneficial owner is entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, including without limitation any such interests held by members of such shareholder's or beneficial owner's immediate family sharing the same household;

(B) if the Nominator or Nominator Group so elects, a written statement for inclusion in the corporation's proxy statement in support of the election of the Shareholder Nominee(s) to the board, which statement shall not exceed 500 words with respect to each Shareholder Nominee (the "Nomination Statement");

(C) in the case of a nomination by a Nominator Group, the designation by all Group Members of one specified Group Member (or a qualified representative thereof) that is authorized to act on behalf of all Group Members with respect to the nomination and matters related thereto, including withdrawal of the nomination;

(D) a representation by the Shareholder Nominee and the Nominator or Nominator Group (including each Group Member) that each such person has provided and will provide facts, statements and other information in all communications with the corporation and its shareholders and beneficial owners, including without limitation the Notice of Proxy Access Nomination and the Nomination Statement, that are and will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made in light of the circumstances under which they were made, not misleading;

(E) one or more written statements from each shareholder of record of the Required Shares (as defined below), and from each intermediary through which such shares are or have been held during the three-year holding period referenced in subsection (b)(iii) of this Section 12, verifying that, as of a date within seven days prior to the date the Notice of Proxy Access Nomination is received by the Corporate Secretary, the Nominator or the Nominator Group, as the case may be, owns, and has owned continuously for the preceding three years, the Required Shares, and the Nominator's, or, in the case of a Nominator Group, each Group Member's, agreement to provide (1) within seven days after the record date for the applicable annual meeting, written statements from the record holder and intermediaries verifying the Nominator or the Nominator Group's, as the case may be, continuous ownership of the Required Shares through the record date, *provided*, that if and to the extent that a shareholder of record is acting on behalf of one or more beneficial owners, such written statements shall also be submitted by any such beneficial owner or owners, and (2) immediate notice if the Nominator or Nominator Group, as the case may be, ceases to own any of the Required Shares prior to the date of the applicable annual meeting;

(F) a copy of any Schedule 14N that has been filed with the Securities and Exchange Commission (the "SEC") as required by Rule 14a-18 under the Exchange Act;

(G) a representation by the Nominator (including any beneficial owner on whose behalf the nomination is made), or, in the case of a Nominator Group, each Group Member (including any beneficial owner on whose behalf the nomination is made) that:

(1) the Required Shares were acquired in the ordinary course of business and not with intent to change or influence control of the corporation, and each such person does not presently have such intent,

(2) each such person will maintain ownership (as defined in this Section 12) of the Required Shares through the date of the applicable annual meeting along with a further statement as to whether or not such person has the intention to hold the Required Shares for at least one year thereafter (which statement the Nominator or Nominator Group shall include in its Nomination

Statement, it being understood that the inclusion of such statement shall not count towards the Nomination Statement's 500-word limit),

(3) each such person has not distributed, and will not distribute, to any shareholder or beneficial owner any form of proxy for the applicable annual meeting other than the form distributed by the corporation,

(4) each such person has not engaged in, and with respect to the applicable annual meeting, will not directly or indirectly engage in, and has not been and will not be a participant (as defined in Schedule 14A under the Exchange Act) in, a "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act other than in support of its Shareholder Nominee(s) or a nominee of the board for election as a director, and

(5) each such person consents to the public disclosure of the information provided pursuant to this Section 12;

(H) an executed agreement, in a form deemed satisfactory by the board, pursuant to which the Nominator (including any beneficial owner on whose behalf the nomination is made) or, in the case of a Nominator Group, each Group Member (including any beneficial owner on whose behalf the nomination is made) agrees to:

(1) comply with all applicable laws, rules and regulations arising out of or relating to the nomination of each Shareholder Nominee pursuant to this Section 12,

(2) assume all liability stemming from any legal or regulatory violation arising out of the communications and information provided by such person(s) to the corporation and its shareholders and beneficial owners, including without limitation the Notice of Proxy Access Nomination and the Nomination Statement,

(3) indemnify and hold harmless the corporation and each of its directors, officers, employees, agents and affiliates individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, arising out of or relating to any nomination submitted by such person(s) pursuant to this Section 12,

(4) file with the SEC any solicitation or other communication with the corporation's shareholders and beneficial owners relating to the meeting at which the Shareholder Nominee will be nominated, regardless of whether any such filing is required by Regulation 14A under the Exchange Act or whether any exemption from filing is available for such solicitation or other communication pursuant to Regulation 14A under the Exchange Act, and

(5) furnish to the corporation all notifications and updated information required by this Section 12, including, without limitation, the information required by subsection (b)(iv) of this Section 12; and

(I) a letter of resignation signed by each Shareholder Nominee, which letter shall specify that such Shareholder Nominee's resignation from the board is irrevocable and that it shall become effective upon a determination by the board or any committee thereof that (x) any of the information provided to the corporation by the Nominator, the Nominator Group, any Group Member (including, in each case, any beneficial owner on whose behalf the nomination was made) or the Shareholder Nominee in respect of the nomination of such Shareholder Nominee pursuant to this Section 12 is or was untrue in any material respect (or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading) or (y) the Nominator, the Nominator Group, any Group Member (including, in each case, any beneficial owner on whose behalf the nomination was made) or the Shareholder Nominee shall have breached any of their respective representations, obligations or agreements under this Section 12.

(iii) (A) To nominate a Shareholder Nominee, the Nominator or Nominator Group shall have owned common stock of the corporation representing 3% or more of the voting power entitled to vote generally in the election of directors (the "Required Shares") continuously for at least three years as of both the date the Notice of Proxy Access Nomination is submitted to the corporation and the record date for determining shareholders eligible to vote at the applicable annual meeting and must continue to own the Required Shares at all times between and including the date the Notice of Proxy Access Nomination is submitted to the corporation and the date of the applicable annual meeting; *provided*, that if and to the extent a shareholder of record is acting on behalf of one or more beneficial owners (1) only the common stock of the corporation owned by such beneficial owner or owners, and not any other common stock of the corporation owned by any such shareholder of record, shall be counted for purposes of satisfying the foregoing ownership requirement and (2) in the case of a Nominator Group, the aggregate number of shareholders of record and all such beneficial owners, in each case whose share ownership is counted for the purposes of satisfying the foregoing ownership requirement (but counting the record holder and beneficial holder of the same shares as one shareholder for these purposes), shall not exceed 20. Two or more funds that are (x) under common management and investment control, (y) under common management and funded primarily by a single employer or (z) a "group of investment companies," as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940, as amended, shall be treated as one shareholder of record or beneficial owner, as the case may be, for the purpose of satisfying the foregoing ownership requirements; *provided*, that each fund otherwise meets the requirements set forth in this Section 12; and *provided further*, that any such funds for which common stock of the corporation is a

gregated for the purpose of satisfying the foregoing ownership requirements provide documentation reasonably satisfactory to the corporation that demonstrates that the funds meet the criteria set forth in (x), (y) or (z) hereof in the Notice of Proxy Access Nomination. No shares may be attributed to more than one Nominator or Nominator Group, and no beneficial owner or shareholder of record may be a member of more than one Nominator or Nominator Group (other than a record holder directed to act by more than one beneficial owner).

(B) For purposes of calculating the Required Shares, “ownership” shall be deemed to consist of and include only the outstanding shares of common stock as to which a person possesses both (1) the full voting and investment rights pertaining to such shares and (2) the full economic interest in (including the opportunity for profit and risk of loss on) such shares; *provided*, that the ownership of shares calculated in accordance with clauses (1) and (2) shall not include any shares (x) that a person or any of its affiliates (as such term is defined in the Exchange Act) has sold in any transaction that has not been settled or closed, (y) that a person or any of its affiliates has borrowed or purchased pursuant to an agreement to resell or (z) that are subject to any Derivative Instrument (as defined in Section 10 of this Article II) or similar agreement entered into by a person or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of shares of the corporation’s common stock, in any case in which such instrument or agreement has, or is intended to have, the purpose or effect of (1) reducing in any manner, to any extent or at any time in the future, the person’s or affiliates’ full right to vote or direct the voting of any such shares, and/or (2) hedging, offsetting or altering to any degree gain or loss arising from the full economic ownership of such person’s or affiliates’ shares of common stock. “Ownership” shall include shares held in the name of a nominee or other intermediary so long as the person claiming ownership of such shares retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. A person’s ownership of shares of common stock shall be deemed to continue during any period in which the person has delegated any voting power by means of a proxy, power of attorney or other instrument or arrangement that is revocable at any time by the person. A person’s ownership of shares of common stock shall also be deemed to continue during any period in which such person has loaned such shares; *provided*, that the person has the power to recall such loaned shares on five U.S. business days’ notice. The determination of the extent of “ownership” of shares for purposes of this Section 12 shall be made by the board, which determination shall be conclusive and binding on the corporation, its shareholders and beneficial owners and all other parties. For the purposes of this Section 12, the terms “owned,” “owning” and other variations of the word “own” shall have correlative meanings.



(iv) The information required by subsection (b)(ii) of this Section 12 with respect to any nomination submitted by a Nominator Group pursuant to this Section 12 shall be provided by each Group Member (including any beneficial owner on whose behalf the nomination is made) in the manner and within the time period prescribed therein.

In the event that the Nominator, Nominator Group or any Group Member shall have breached any of their respective representations, obligations or agreements with the corporation, or any information included in the Nomination Statement or the Notice of Proxy Access Nomination or any other communications by the Nominator, Nominator Group or any Group Member (including any beneficial owner on whose behalf the nomination is made) with the corporation or its shareholders and beneficial owners ceases to be true and correct in all material respects (or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading), each Nominator, Nominator Group or Group Member (including any beneficial owner on whose behalf the nomination is made), as the case may be, shall promptly (and in any event within 24 hours of discovering such breach or that such information has ceased to be true and correct in all material respects (or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading)) notify the Corporate Secretary of any such breach, inaccuracy or omission in such previously provided information and shall provide the information that is required to correct any such defect, if applicable.

All information required to be included in the Notice of Proxy Access Nomination or is otherwise required to be provided pursuant to this Section 12 shall be updated and supplemented, if necessary, in accordance with Section 10(b) of this Article II.

(v) (A) Within the time period specified in this Section 12 for providing the Notice of Proxy Access Nomination, each Shareholder Nominee must deliver to the Corporate Secretary a written representation and agreement that such person:

(I) consents to be named in the proxy statement as a nominee, to serve as a director if elected, and to the public disclosure of the information provided pursuant to this Section 12; and

(II) will provide facts, statements and other information in all communications with the corporation and its shareholders and beneficial owners that are and will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

(B) At the request of the corporation, each Shareholder Nominee for election as a director of the corporation must promptly submit (but in no event later than seven days after receipt of the request) to the Corporate Secretary (I) the questionnaire, representation and agreement required by Section 10 of Article III

and (II) such additional information as requested by the corporation to permit the board to determine if such nominee is independent, including for purposes of serving on one or more committees of the board, under the listing standards of each principal U.S. exchange upon which the common stock of the corporation is listed, any applicable rules of the SEC and any publicly disclosed standards used by the board in determining and disclosing the independence of the corporation's directors and to determine whether the nominee otherwise meets all other standards applicable to directors.

(C) In the event that any Shareholder Nominee shall have breached any of his or her respective representations, obligations or agreements with the corporation or any information or communications provided by a Shareholder Nominee to the corporation or its shareholders and beneficial owners ceases to be true and correct in any respect (or omits a fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading), such Shareholder Nominee shall promptly (and in any event within 24 hours of discovering such breach or that such information has ceased to be true and correct in all material respects (or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading)) notify the Corporate Secretary of any such breach, inaccuracy or omission in such previously provided information and shall provide the information that is required to make such information or communication true and correct, if applicable.

(c) Any Nominator, Nominator Group or Group Member (including any beneficial owner on whose behalf the nomination is made) whose Shareholder Nominee is elected as a director at the annual meeting will not be eligible to nominate or participate in the nomination of a Shareholder Nominee for the following two annual meetings other than the nomination of such previously elected Shareholder Nominee.

(d) The corporation shall not be required to include, pursuant to this Section 12, a Shareholder Nominee in its proxy materials for any meeting of shareholders, or, if the proxy statement already has been filed, to allow the nomination of a Shareholder Nominee, notwithstanding that proxies in respect of such vote may have been received by the corporation:

(i) for any meeting for which the Corporate Secretary receives notice that the Nominator, the Nominator Group or any Group Member, as the case may be, or any other shareholder of record, intends to nominate one or more persons for election to the board pursuant to Section 11 of this Article II;

(ii) if any director then in office was previously nominated by a shareholder of record pursuant to Section 11 of this Article II or pursuant to an agreement or other arrangement with one or more shareholders or beneficial owners, as the case may be, in lieu of any person being formally proposed as a nominee for election to the board pursuant to Section 11 of this Article II, in each case, at one of the previous three annual meetings;

(iii) who is not independent under the listing standards of each principal U.S. exchange upon which the common stock of the corporation is listed, any applicable rules of the SEC and any publicly disclosed standards used by the board in determining and disclosing the independence of the corporation's directors, including those applicable to a director's service on any of the committees of the board, in each case as determined by the board;

(iv) whose election as a member of the board would cause the corporation to be in violation of these bylaws, the amended and restated articles of incorporation of the corporation, the rules and listing standards of the principal U.S. exchange upon which the common stock of the corporation is listed, or any applicable law, rule or regulation or of any standards of the corporation applicable to directors, in each case as determined by the board;

(v) who is or has been, within the past three years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, as amended, of the corporation or its subsidiaries, or is a representative of an entity that has or has had a representative functioning as such an officer or director during such period;

(vi) whose business or personal interests place such Shareholder Nominee in a conflict of interest with the corporation or any of its subsidiaries, as determined by the board;

(vii) who is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past 10 years;

(viii) who is subject to any order of the type specified in Rule 506(d) of Regulation D under the Securities Act of 1933, as amended;

(ix) if any information provided to the corporation in connection with such nomination was untrue in any material respect or omitted to state a material fact necessary in order to make any statement made, in light of the circumstances under which it was made, not misleading, as determined by the board or any committee thereof;

(x) if the Nominator (or a qualified representative thereof) or, in the case of a Nominator Group, one specified Group Member (or a qualified representative thereof), or the Shareholder Nominee does not appear at the applicable annual meeting to present the Shareholder Nominee for election;

(xi) if the Nominator or, in the case of a Nominator Group, any Group Member, or the Shareholder Nominee otherwise breaches or fails to comply with its representations or obligations pursuant to these bylaws, including, without limitation, this Section 12 and Section 10 of Article III.

For the purpose of this paragraph, clauses (iii) through (xi) will result in the exclusion from the proxy materials pursuant to this Section 12 of the specific Shareholder Nominee(s) to whom the ineligibility applies, or, if the proxy statement already has been filed, the ineligibility of the Shareholder Nominee(s) and the inability of the Nominator or Nominator Group that nominated any such Shareholder Nominee to substitute another Shareholder Nominee therefor; however, clauses (i) and (ii) will result in the exclusion from the proxy materials pursuant to this Section 12 of all Shareholder Nominees for the applicable annual meeting, or, if the proxy statement already has been filed, the ineligibility of all Shareholder Nominees.

(e) Notwithstanding anything to the contrary contained in this Section 12:

(i) the corporation may omit from its proxy materials any information, including all or any portion of the Nomination Statement, if the board determines that the disclosure of such information would violate any applicable law or regulation or that such information is not true and correct in all material respects or omits to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(ii) if the board or the chairman of the meeting determines that any Nominator, Nominator Group or Group Member (and any beneficial owner on whose behalf the nomination is made) has failed to comply with the requirements of this Section 12, the board or the chairman of the meeting shall declare the nomination by such Nominator or Nominator Group to be invalid, and such nomination shall be disregarded; and

(iii) the board (and any other person or body authorized by the board) shall have the power and authority to interpret this Section 12 and to make any and all determinations necessary or advisable to apply this Section 12 to any persons, facts or circumstances. Any such interpretation or determination adopted in good faith by the board (or any other person or body authorized by the board) shall be conclusive and binding on all persons, including the corporation and its shareholders of record and beneficial owners).

Section 13. Notice to Corporation. Any written notice, information or consent required to be delivered by a shareholder to the corporation pursuant to Section 10, Section 11 or Section 12 of this Article II must be delivered to, or mailed and received by, the Corporate Secretary at the corporation's principal executive office, not later than 5:00 p.m., Eastern Time, with respect to any applicable deadline (unless otherwise stated in these bylaws).

### ARTICLE III

#### BOARD OF DIRECTORS

Section 1. Board to Manage. The business and affairs of the corporation shall be managed by or under the direction of the board.

Section 2. Number and Term of Office. Subject to Article VI of the amended and restated articles of incorporation, the number of directors shall be determined by the board of directors from time to time. Each director shall be elected to serve for a term that expires at the next regular annual meeting of the shareholders and when a successor is elected and has qualified, or at the time of the earlier death, resignation, removal or disqualification of the director.

Section 3. Meetings of the Board. The board may hold meetings either within or without the State of Minnesota at such places as the board may select. If the board fails to select a place for a meeting, the meeting shall be held at the principal executive office of the corporation; *provided*, that one meeting each calendar year shall be held within the State of Connecticut. No notice of a regular meeting is required if the date, time and place of the meeting has been announced at a previous meeting of the board. A special meeting of the board may be called by any director or by the Chief Executive Officer by giving, or causing the Corporate Secretary to give, at least 24 hours' notice to all directors of the date, time and place of the meeting.

Section 4. Advance Action by Absent Directors. A director may give advance written consent or opposition to a proposal to be acted on at a board meeting.

Section 5. Electronic Communications. A board meeting may be held and participation in a meeting may be effected by means of any form of communications permitted by Chapter 302A.

Section 6. Quorum. At all meetings of the board, a majority of the directors then holding office is a quorum for the transaction of business. In the absence of a quorum, a majority of the directors present may adjourn a meeting from time to time until a quorum is present. If a quorum is present when a meeting is convened, the directors present may continue to transact business until adjournment *sine die*, even though the withdrawal of a number of directors originally present leaves less than the proportion otherwise required for a quorum.

Section 7. Act of the Board. The board shall take action by the affirmative vote of at least a majority of the directors present at a meeting. An action required or permitted to be taken at a board meeting may be taken without a meeting by written action signed, or consented to by authenticated electronic communication, by all of the directors. If the restated articles of incorporation so provide, any action, other than an action requiring shareholder approval, may be taken by written action signed, or consented to by authenticated electronic communication, by the number of directors that would be required to take the same action at a meeting of the board at which all directors were present. The written action is effective when signed, or consented to by authenticated electronic communication, by the required number of directors, unless a different effective time is provided for in the written action. If written action is permitted to be

taken, and is taken, by less than all directors, then all directors shall be notified immediately of its text and effective date.

Section 8. Board-Appointed Committees. A resolution approved by the affirmative vote of a majority of the directors then holding office may establish committees having the authority of the board in the management of the business of the corporation; and any committee, to the extent provided in the applicable resolution of the board of directors or in the bylaws, shall, to the extent permitted by law, have and may exercise all of the powers and authority of the board of directors. Unless otherwise provided in the restated articles of incorporation or the resolution of the board establishing the committee, a committee may create one or more subcommittees, each consisting of one or more members of the committee, and may delegate to a subcommittee any or all of the authority of the committee.

Section 9. Chairman of the Board. The board shall at its regular meeting each year immediately following the regular annual shareholders meeting elect from its number a chairman of the board who shall serve until the next regular meeting of the board immediately following the regular annual shareholders meeting. The chairman may be (but shall not be required to be) the Chief Executive Officer or another executive officer of the corporation and shall:

- (a) consult with the Chief Executive Officer and the board on the strategic direction of the corporation;
- (b) report solely to the board;
- (c) preside at all meetings of the board; and
- (d) perform such other duties prescribed by the board or these bylaws.

Section 10. Director Information. Each person proposed as a nominee for election or reelection as a director shall deliver (in accordance with any applicable time periods prescribed for delivery under Sections 11 or 12 of Article II) to the Corporate Secretary at the corporation's principal executive office a completed and signed questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Corporate Secretary upon written request) and a written representation and agreement (in the form provided by the Corporate Secretary upon written request), that such person proposed as a nominee:

(a) is not and will not become a party to any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person as to how such nominee, if elected as a director of the corporation, will act or vote as a director on any issue or question to be decided by the board or any issue or question that otherwise relates to the corporation or such person's service on the board;

(b) is not and will not become a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person (other than with the corporation) that has not been disclosed to the corporation, including any agreement to indemnify such person for obligations arising as a result of his or her service as a director of the corporation, and has not and will not receive any compensation or payment from any person (other than the corporation) that has not been disclosed to the corporation, in each case in connection with such nominee's nomination, service or action as a director of the corporation; and

(c) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the corporation, and will comply with all applicable law and stock exchange listing standards and with the corporation's policies, guidelines and principles applicable to directors, including, without limitation, the corporation's governance guidelines, code of business conduct and ethics, conflict of interest, confidentiality, stock ownership and trading policies and guidelines, and any other codes, policies and guidelines of the corporation or any rules, regulations and listing standards, in each case as applicable to directors.

## ARTICLE IV

### OFFICERS

Section 1. Required Officers. The corporation shall have officers who shall serve as Chief Executive Officer and Chief Financial Officer and such other officers as the board shall determine from time to time.

Section 2. Chief Executive Officer. The board shall at its regular meeting each year immediately following the regular annual shareholders meeting elect from its number a Chief Executive Officer who shall serve until the next regular meeting of the board immediately following the regular annual shareholders meeting. The Chief Executive Officer shall:

- (a) in consultation with the chairman and the board, have responsibility for planning the strategic direction of the corporation;
- (b) subject to the direction of the board, have responsibility for the supervision, coordination and management of the business and affairs of the corporation;
- (c) preside at all shareholder meetings;
- (d) have responsibility to direct and guide operations to achieve corporate profit, growth and social responsibility objectives;
- (e) report solely to the board;

- (f) see that all orders and resolutions of the board are carried into effect; and
- (g) perform such other duties prescribed by the board or these bylaws.

Section 3. Chief Financial Officer. The board shall elect one or more officers, however denominated, to serve at the pleasure of the board who shall together share the function of Chief Financial Officer. The function of Chief Financial Officer shall be to:

- (a) cause accurate financial records to be maintained for the corporation;
- (b) cause all funds belonging to the corporation to be deposited in the name of and to the credit of the corporation in banks and other depositories selected pursuant to general and specific board resolutions;
- (c) cause corporate funds to be disbursed as appropriate in the ordinary course of business;
- (d) cause appropriate internal control systems to be developed, maintained, improved and implemented; and
- (e) perform other duties prescribed by the board or the Chief Executive Officer.

Section 4. Chief Legal Officer. The board shall elect one or more officers, however denominated, to serve at the pleasure of the board who shall together share the function of Chief Legal Officer. The function of Chief Legal Officer shall be to:

- (a) serve as the senior legal counsel to the corporation;
- (b) have responsibility for oversight and administration of the corporation's legal and regulatory affairs; and
- (c) perform other duties prescribed by the board or the Chief Executive Officer.

Section 5. Chief Investment Officer. The board shall elect one or more officers, however denominated, to serve at the pleasure of the board who shall together share the function of Chief Investment Officer. The function of Chief Investment Officer shall be to:

- (a) have responsibility for the administration of the corporation's investment portfolio;
- (b) have responsibility for the supervision and oversight of compliance with the corporation's investment policies;
- (c) have responsibility for monitoring the performance of investment managers, external and internal, and making recommendations to the Chief Executive Officer with respect thereto; and



(d) perform such other duties prescribed by the board or the Chief Executive Officer.

Section 6. Corporate Secretary. The board shall elect one or more officers, however denominated, to serve at the pleasure of the board who shall together share the function of a Corporate Secretary. The function of Corporate Secretary shall be to:

(a) be present at and maintain records of and certify proceedings of the board and the shareholders and, if requested, of the executive committee and other board committees;

(b) serve as custodian of all official corporate records other than those of a financial nature;

(c) cause the corporation to maintain appropriate records of share transfers and shareholders; and

(d) perform other duties prescribed by the board or the Chief Executive Officer.

In the absence of the Corporate Secretary, a Secretary, Assistant Secretary or other officer shall be designated by the Chief Executive Officer to carry out the duties of Corporate Secretary.

## ARTICLE V

### SHARE CERTIFICATES/TRANSFER

Section 1. Certificated and Uncertificated Shares. The shares of this corporation shall be either certificated shares or uncertificated shares. Each holder of duly issued certificated shares is entitled to a certificate of shares, which shall be in such form as prescribed by law and adopted by the board.

Section 2. Transfer of Shares. Transfer of shares on the books of the corporation shall be made by the transfer agent and registrar in accordance with procedures adopted by the board.

Section 3. Lost, Stolen or Destroyed Certificates. No certificate for certificated shares of the corporation shall be issued in place of one claimed to be lost, stolen or destroyed except in compliance with Section 336.8-405, Minnesota Statutes, as amended from time to time, and the corporation may require a satisfactory bond of indemnity protecting the corporation against any claim by reason of the lost, stolen or destroyed certificate.

## ARTICLE VI

### GENERAL PROVISIONS

Section 1. Voting of Shares. The Chief Executive Officer, any Vice President, the Corporate Secretary or the Deputy Corporate Secretary, unless some other person is

appointed by the board, may vote shares of any other corporation held or owned by the corporation and may take any required action with respect to investments in other types of legal entities.

Section 2. Execution of Documents. Deeds, mortgages, bonds, contracts and other documents and instruments pertaining to the business and affairs of the corporation may be signed and delivered on behalf of the corporation by the Chief Executive Officer, any vice president or Corporate Secretary or by such other person or by such other officers as the board may specify.

Section 3. Transfer of Assignment of Securities. The Chief Executive Officer, Chief Financial Officer, Chief Legal Officer, Chief Investment Officer, Treasurer, or any Vice President, Corporate Secretary, Secretary or Assistant Secretary of the corporation shall execute the transfer and assignment of any securities owned by or held in the name of the corporation. The transfer and assignment of securities held in the name of a nominee of the corporation may be accomplished pursuant to the contract between the corporation and the nominee.

Section 4. Fiscal Year. The fiscal year of the corporation shall end on December 31 of each year.

Section 5. Seal. The corporation shall have a circular seal bearing the name of the corporation and an impression of a person at a plow and a person on horseback.

Section 6. Indemnification. The corporation shall indemnify and make permitted advances to a person made or threatened to be made a party to a proceeding by reason of his former or present official capacity (as defined in Section 302A.521 of the Minnesota Statutes, as amended from time to time) against judgments, penalties, fines (including without limitation excise taxes assessed against the person with respect to an employee benefit plan), settlements and reasonable expenses (including without limitation attorneys' fees and disbursements) incurred by such person in connection with the proceeding in the manner and to the fullest extent permitted or required by Section 302A.521, as amended from time to time.

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## Section 3: 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 September 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: October 22, 2019

By: /S/ ALAN D. SCHNITZER

**Alan D. Schnitzer**  
**Chairman and Chief Executive Officer**

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## **Section 4: 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 September 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: October 22, 2019 By: /S/ DANIEL S. FREY  
**Daniel S. Frey**  
**Executive Vice President and Chief Financial Officer**

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## Section 5: 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 September 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: October 22, 2019 By: /S/ ALAN D. SCHNITZER  
**Alan D. Schnitzer**  
**Chairman and Chief Executive Officer**

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## Section 6: 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 September 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: October 22, 2019 By: /S/ DANIEL S. FREY  
**Daniel S. Frey**  
**Executive Vice President and Chief Financial Officer**

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