TRAVELERS COMPANIES, INC.
Form 10-Q
July 19, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission file number: 001-10898

The Travelers Companies, Inc.
(Exact name of registrant as specified in its charter)

Minnesota	41-0518860
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

485 Lexington Avenue
New York, NY 10017
(Address of principal executive offices) (Zip Code)

(917) 778-6000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No o

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

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

(Do not check if a smaller reporting company)

Emerging growth company o

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

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

The number of shares of the Registrant’s Common Stock, without par value, outstanding at July 16, 2018 was 267,683,231.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended June 30, 2018

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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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Premiums	$6,695	$6,351	$13,232	$12,534
Net investment income	595	598	1,198	1,208
Fee income	112	116	215	229
Net realized investment gains (1)	36	80	25	85
Other revenues	39	39	93	70
Total revenues	7,477	7,184	14,763	14,126
Claims and expenses				
Claims and claim adjustment expenses	4,562	4,225	8,858	8,319
Amortization of deferred acquisition costs	1,081	1,032	2,142	2,035
General and administrative expenses	1,113	1,045	2,175	2,041
Interest expense	90	92	179	181
Total claims and expenses	6,846	6,394	13,354	12,576
Income before income taxes	631	790	1,409	1,550
Income tax expense	107	195	216	338
Net income	$524	$595	$1,193	$1,212
Net income per share				
Basic	$1.93	$2.13	$4.39	$4.32
Diluted	$1.92	$2.11	$4.35	$4.28
Weighted average number of common shares outstanding				
Basic	268.7	277.5	269.8	278.6
Diluted	271.1	280.0	272.5	281.2
Cash dividends declared per common share	$0.77	$0.72	$1.49	$1.39

(1) Total other-than-temporary impairment (OTTI) losses were $(1) million and $(5) million for the three months ended June 30, 2018 and 2017, respectively, and $(1) million and $(6) million for the six months ended June 30, 2018 and 2017, respectively. Of total OTTI, credit losses of $(1) million and $(5) million for the three months ended June 30, 2018 and 2017, respectively, and $(1) million and $(7) million for the six months ended June 30, 2018 and 2017, respectively, were recognized in net realized investment gains. In addition, unrealized gains

(losses) from other changes in total OTTI of $0 million for each of the three months ended June 30, 2018 and 2017, respectively, and $0 million and $1 million for the six months ended June 30, 2018 and 2017, respectively, were recognized in other comprehensive income (loss) as part of changes in net unrealized gains (losses) on investment securities having credit losses recognized in the consolidated statement of income.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$524	$595	$1,193	$1,212
Other comprehensive income (loss):				
Changes in net unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income	(298)	327	(1,501)	471
Having credit losses recognized in the consolidated statement of income	(12)	2	(14)	2
Net changes in benefit plan assets and obligations	21	17	43	34
Net changes in unrealized foreign currency translation	(158)	48	(152)	89
Other comprehensive income (loss) before income taxes	(447)	394	(1,624)	596
Income tax expense (benefit)	(81)	123	(325)	185
Other comprehensive income (loss), net of taxes	(366)	271	(1,299)	411
Comprehensive income (loss)	$158	$866	$(106)	$1,623

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

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

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Fixed maturities, available for sale, at fair value (amortized cost $62,674 and $61,316)	$ 62,536	$ 62,694
Equity securities, at fair value (cost $409 and $440)	424	453
Real estate investments	954	932
Short-term securities	3,692	4,895
Other investments	3,555	3,528
Total investments	71,161	72,502
Cash	415	344
Investment income accrued	610	606
Premiums receivable	7,786	7,144
Reinsurance recoverables	8,258	8,309
Ceded unearned premiums	698	551
Deferred acquisition costs	2,161	2,025
Deferred taxes	463	70
Contractholder receivables	4,830	4,775
Goodwill	3,931	3,951
Other intangible assets	356	342
Other assets	2,854	2,864
Total assets	$ 103,523	$ 103,483
Liabilities		
Claims and claim adjustment expense reserves	$ 49,961	$ 49,650
Unearned premium reserves	13,755	12,915
Contractholder payables	4,830	4,775
Payables for reinsurance premiums	396	274
Debt	6,464	6,571
Other liabilities	5,494	5,567
Total liabilities	80,900	79,752
Shareholders’ equity		
Common stock (1,750.0 shares authorized; 267.8 and 271.5 shares issued, 267.7 and 271.4 shares outstanding)	23,040	22,886
Retained earnings	34,296	33,462
Accumulated other comprehensive loss	(1,688)	(343)
Treasury stock, at cost (506.4 and 500.9 shares)	(33,025)	(32,274)
Total shareholders’ equity	22,623	23,731
Total liabilities and shareholders’ equity	$ 103,523	$ 103,483

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

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

For the six months ended June 30,	2018	2017
Common stock		
Balance, beginning of year	$22,886	$22,614
Employee share-based compensation	77	94
Compensation amortization under share-based plans	77	73
Balance, end of period	23,040	22,781
Retained earnings		
Balance, beginning of year	33,462	32,196
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	1,193	1,212
Dividends	(406)	(391)
Other	1	(1)
Balance, end of period	34,296	33,016
Accumulated other comprehensive loss, net of tax		
Balance, beginning of year	(343)	(755)
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018	(22)	—
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018	(24)	—
Other comprehensive income (loss)	(1,299)	411
Balance, end of period	(1,688)	(344)
Treasury stock, at cost		
Balance, beginning of year	(32,274)	(30,834)
Treasury stock acquired — share repurchase authorization	(700)	(700)
Net shares acquired related to employee share-based compensation plans	(51)	(61)
Balance, end of period	(33,025)	(31,595)
Total shareholders' equity	$22,623	$23,858
Common shares outstanding		
Balance, beginning of year	271.4	279.6
Treasury stock acquired — share repurchase authorization	(5.2)	(5.7)
Net shares issued under employee share-based compensation plans	1.5	2.0
Balance, end of period	267.7	275.9

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

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

For the six months ended June 30,	2018	2017
Cash flows from operating activities		
Net income	$1,193	$1,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	(25)	(85)
Depreciation and amortization	411	409
Deferred federal income tax expense (benefit)	(70)	106
Amortization of deferred acquisition costs	2,142	2,035
Equity in income from other investments	(169)	(210)
Premiums receivable	(660)	(609)
Reinsurance recoverables	29	157
Deferred acquisition costs	(2,284)	(2,157)
Claims and claim adjustment expense reserves	435	498
Unearned premium reserves	879	689
Other	(183)	(291)
Net cash provided by operating activities	1,698	1,754
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	3,657	4,300
Proceeds from sales of investments:		
Fixed maturities	2,607	563
Equity securities	92	200
Real estate investments	—	20
Other investments	189	233
Purchases of investments:		
Fixed maturities	(7,952)	(5,673)
Equity securities	(60)	(166)
Real estate investments	(44)	(26)
Other investments	(275)	(259)
Net (purchases) sales of short-term securities	1,202	(424)
Securities transactions in course of settlement	279	170
Other	(152)	(128)
Net cash used in investing activities	(457)	(1,190)
Cash flows from financing activities		
Treasury stock acquired — share repurchase authorization	(700)	(700)
Treasury stock acquired — net employee share-based compensation	(51)	(61)
Dividends paid to shareholders	(404)	(389)
Payment of debt	(600)	(207)
Issuance of debt	491	689
Issuance of common stock — employee share options	98	118
Net cash used in financing activities	(1,166)	(550)
Effect of exchange rate changes on cash	(4)	7
Net increase in cash	71	21
Cash at beginning of year	344	307
Cash at end of period	$415	$328

Supplemental disclosure of cash flow information		
Income taxes paid	$238	$323
Interest paid	$175	$178

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company's management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the Company's 2017 Annual Report).

The preparation of the interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and claims and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

Adoption of Accounting Standards

Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the Financial Accounting Standards Board (FASB) issued updated guidance to address the recognition, measurement, presentation and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with any changes in fair value recognized in net income. Equity securities that do not have readily determinable fair values may be measured at estimated fair value or cost less impairment, if any, adjusted for subsequent observable price changes, with changes in the carrying value recognized in net income. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The updated guidance was effective for the quarter ended March 31, 2018. The adoption of this guidance resulted in the recognition of $22 million of net after-tax unrealized gains on equity investments as a cumulative effect adjustment that increased retained earnings as of January 1, 2018 and decreased accumulated other comprehensive income (AOCI) by the same amount. The Company elected to report changes in the fair value of equity investments in net realized investment gains (losses). At December 31, 2017, equity investments were classified as available-for-sale on the Company's balance sheet. However, upon adoption, the updated guidance eliminated the available-for-sale balance sheet classification for equity investments.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

On February 14, 2018, the FASB issued updated guidance that allows a reclassification from AOCI to retained earnings of the stranded tax effects that occurred due to the enactment of the Tax Cuts and Jobs Act of 2017 (TCJA).

The updated guidance is effective for reporting periods beginning after December 15, 2018 and is to be applied retrospectively to each period in which there are items impacted by the TCJA remaining in AOCI or at the beginning of the period of adoption. Early adoption is permitted. The Company adopted the updated guidance effective January 1, 2018 and elected to reclassify the income tax effects of the TCJA from AOCI to retained earnings as of January 1, 2018. This reclassification resulted in an increase in retained earnings of $24 million as of January 1, 2018 and a decrease in AOCI by the same amount.

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. The updated guidance was effective for reporting periods beginning after December 15, 2017, and requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. For the six months ended June 30, 2018, approximately $83 million, or less than 1% of the Company's total revenues, were within the scope of this updated guidance and were generated from the services described below.

While insurance contracts are not within the scope of this updated guidance, the Company’s revenue related to certain services with no underlying insurance risk is subject to the updated guidance. These services include the following: (i) insurance-related services, such as risk management services, claims administration, loss control and risk management information services on behalf of non-insureds; (ii) servicing carrier fees for various residual market pools and associations; and (iii) administrative fees related to servicing third-party insurers’ obligations to participate in the Workers' Compensation Residual Market Plans in certain states. The revenues earned from these service contracts were not impacted by the adoption of the updated guidance. These revenues are earned on a pro rata basis over the contract service period and reported in fee income in the Company’s consolidated statement of income.

Commissions earned from on-line insurance brokerage services are also subject to this updated guidance and were also not impacted by the adoption of the updated guidance. Commissions are earned upon collection of the gross premium in accordance with the contracts and an accrual is made to recognize policy cancellations, either at the policyholder’s direction or for non-payment. Commissions are reported in other revenues in the Company's consolidated statement of income.

The Company does not capitalize the costs to obtain or fulfill the contracts for which revenues are reported in fee income and other income, and has not recognized any impairment losses on the receivables related to these contracts during the six months ended June 30, 2018.

The Company adopted the updated guidance effective January 1, 2018. The adoption did not have an effect on the Company’s results of operations, financial position or liquidity.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued updated guidance on the classification of cash flows related to certain activities in the statement of cash flows to reduce diversity in practice. The updated guidance was effective for reporting periods beginning after December 15, 2017 and was applied retrospectively to all periods presented. Under the new guidance, distributions received on equity method investments that are considered to be a return on investment are reported as cash flows from operating activities. These distributions were previously reported as cash flows from investing activities. The adoption of this guidance had no effect on the Company’s results of operations, financial position or liquidity.

For information regarding accounting standards that the Company adopted during the years presented, see the “Adoption of Accounting Standards” section of note 1 of notes to the consolidated financial statements in the Company’s 2017 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 2017 Annual Report.

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 2017 Annual Report.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION

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

(For the three months ended June 30, in millions)	Business Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2018				
Premiums	$ 3,641	$ 601	$ 2,453	$ 6,695
Net investment income	440	57	98	595
Fee income	107	—	5	112
Other revenues	20	5	14	39
Total segment revenues [1]	$ 4,208	$ 663	$ 2,570	$ 7,441
Segment income (loss) [1]	$ 385	$ 204	$ (17)	$ 572
2017				
Premiums	$ 3,504	$ 575	$ 2,272	$ 6,351
Net investment income	447	56	95	598
Fee income	112	—	4	116
Other revenues	15	6	15	36
Total segment revenues [1]	$ 4,078	$ 637	$ 2,386	$ 7,101
Segment income [1]	$ 429	$ 163	$ 12	$ 604

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

(For the six months ended June 30, in millions)	Business Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2018				
Premiums	$ 7,209	$ 1,183	$ 4,840	$ 13,232
Net investment income	886	115	197	1,198
Fee income	206	—	9	215
Other revenues	51	11	31	93
Total segment revenues (1)	$ 8,352	$ 1,309	$ 5,077	$ 14,738
Segment income (1)	$ 837	$ 377	$ 112	$ 1,326
2017				
Premiums	$ 6,933	$ 1,130	$ 4,471	$ 12,534
Net investment income	900	117	191	1,208
Fee income	221	—	8	229
Other revenues	24	11	31	66

Total segment revenues (1)	$ 8,078	$ 1,258	$ 4,701	$ 14,037
Segment income (1)	$ 871	$ 308	$ 101	$ 1,280

(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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Revenue reconciliation				
Earned premiums				
Business Insurance:				
Domestic:				
Workers' compensation	$973	$999	$1,944	$1,975
Commercial automobile	587	521	1,149	1,027
Commercial property	453	443	891	878
General liability	535	498	1,056	989
Commercial multi-peril	822	797	1,627	1,571
Other	6	7	13	14
Total Domestic	3,376	3,265	6,680	6,454
International	265	239	529	479
Total Business Insurance	3,641	3,504	7,209	6,933
Bond & Specialty Insurance:				
Domestic:				
Fidelity and surety	253	245	499	479
General liability	248	239	490	474
Other	49	46	96	91
Total Domestic	550	530	1,085	1,044
International	51	45	98	86
Total Bond & Specialty Insurance	601	575	1,183	1,130
Personal Insurance:				
Domestic:				
Automobile	1,261	1,145	2,486	2,239
Homeowners and Other	1,022	977	2,017	1,932
Total Domestic	2,283	2,122	4,503	4,171
International	170	150	337	300
Total Personal Insurance	2,453	2,272	4,840	4,471
Total earned premiums	6,695	6,351	13,232	12,534
Net investment income	595	598	1,198	1,208
Fee income	112	116	215	229
Other revenues	39	36	93	66
Total segment revenues	7,441	7,101	14,738	14,037
Other revenues	—	3	—	4
Net realized investment gains	36	80	25	85
Total revenues	$7,477	$7,184	$14,763	$14,126
Income reconciliation, net of tax				
Total segment income	$572	$604	$1,326	$1,280
Interest Expense and Other [1]	(78)	(61)	(154)	(123)
Core income	494	543	1,172	1,157
Net realized investment gains	30	52	21	55

Net income	$524	$595	$1,193	$1,212

(1) The primary component of Interest Expense and Other was after-tax interest expense of $71 million and $60 million in the three months ended June 30, 2018 and 2017, respectively, and $141 million and $118 million in the six months ended June 30, 2018 and 2017, respectively.

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

(in millions)	June 30, 2018	December 31, 2017
Asset reconciliation		
Business Insurance	$78,500	$ 78,082
Bond & Specialty Insurance	8,757	8,776
Personal Insurance	15,697	15,949
Total segment assets	102,954	102,807
Other assets [1]	569	676
Total consolidated assets	$103,523	$ 103,483

(1) The primary components of other assets at June 30, 2018 were accrued over-funded benefit plan assets related to the Company's qualified domestic pension plan and other intangible assets, and the primary components at December 31, 2017 were accrued over-funded benefit plan assets related to the Company's qualified domestic pension plan, other intangible assets and deferred taxes.

3. INVESTMENTS

Fixed Maturities

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

(at June 30, 2018, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,041	$1	$ 23	$2,019
Obligations of states, municipalities and political subdivisions:				
Local general obligation	13,992	201	136	14,057
Revenue	9,857	171	88	9,940
State general obligation	1,384	19	12	1,391
Pre-refunded	3,432	111	1	3,542
Total obligations of states, municipalities and political subdivisions	28,665	502	237	28,930
Debt securities issued by foreign governments	1,281	8	8	1,281
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,499	66	49	2,516
All other corporate bonds	28,102	161	563	27,700
Redeemable preferred stock	86	4	—	90
Total	$ 62,674	$742	$ 880	$62,536

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

(at December 31, 2017, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,080	$4	$ 8	$2,076
Obligations of states, municipalities and political subdivisions:				
Local general obligation	13,488	444	26	13,906
Revenue	11,307	338	19	11,626
State general obligation	1,443	44	3	1,484
Pre-refunded	3,758	142	1	3,899
Total obligations of states, municipalities and political subdivisions	29,996	968	49	30,915
Debt securities issued by foreign governments	1,505	14	10	1,509
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,334	87	11	2,410
All other corporate bonds	25,311	478	100	25,689
Redeemable preferred stock	90	5	—	95
Total	$ 61,316	$1,556	$ 178	$62,694

Pre-refunded bonds of $3.54 billion and $3.90 billion at June 30, 2018 and December 31, 2017, 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 $2.61 billion and $563 million during the six months ended June 30, 2018 and 2017, respectively. Gross gains of $24 million and $17 million and gross losses of $11 million and $4 million were realized on those sales during the six months ended June 30, 2018 and 2017, respectively.

Equity Securities

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

(at June 30, 2018, in millions)	Cost	Gross Gains	Gross Losses	Fair Value
Public common stock	$335	$12	$ 5	$342
Non-redeemable preferred stock	74	11	3	82
Total	$409	$23	$ 8	$424

(at December 31, 2017, in millions)	Cost	Gross Gains	Gross Losses	Fair Value
Public common stock	$332	$8	$ 1	$339
Non-redeemable preferred stock	108	12	6	114
Total	$440	$20	$ 7	$453

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

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

Proceeds from sales of equity securities previously classified as available for sale were $200 million during the six months ended June 30, 2017. Gross gains of $88 million and gross losses of $1 million were realized on those sales during the six months ended June 30, 2017.

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at June 30, 2018 and December 31, 2017, 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 2017 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 2017 Annual Report in determining whether such investments are other-than-temporarily impaired.

	Less than 12 months		12 months or longer		Total	
(at June 30, 2018, in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 1,410	$ 20	$ 458	$ 3	$1,868	$ 23
Obligations of states, municipalities and political subdivisions	6,321	101	2,856	136	9,177	237
Debt securities issued by foreign governments	206	2	241	6	447	8
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,557	41	256	8	1,813	49
All other corporate bonds	17,584	441	2,313	122	19,897	563
Total fixed maturities	$ 27,078	$ 605	$ 6,124	$ 275	$33,202	$ 880

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

	Less than 12 months		12 months or longer		Total	
(at December 31, 2017, in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 1,150	$ 5	$470	$ 3	$1,620	$ 8
Obligations of states, municipalities and political subdivisions	505	2	2,959	47	3,464	49
Debt securities issued by foreign governments	394	6	111	4	505	10
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,021	7	250	4	1,271	11
All other corporate bonds	6,062	48	1,990	52	8,052	100
Total fixed maturities	9,132	68	5,780	110	14,912	178
Equity securities						
Public common stock	18	—	34	1	52	1
Non-redeemable preferred stock	3	—	56	6	59	6
Total equity securities	21	—	90	7	111	7
Total	$ 9,153	$ 68	$5,870	$ 117	$15,023	$ 185

At June 30, 2018, the amount of gross unrealized losses for all fixed maturity investments reported at fair value for which fair value was less than 80% of amortized cost was not significant.

Impairment Charges

Impairment charges included in net realized investment gains in the consolidated statement of income were $1 million and $5 million for the three months ended June 30, 2018 and 2017, respectively, and $1 million and $7 million for the six months ended June 30, 2018 and 2017, respectively.

The cumulative amount of credit losses on fixed maturities held at June 30, 2018 and 2017 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 $67 million and $83 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 six months ended June 30, 2018 and 2017 from that disclosed in note 3 of notes to the consolidated financial statements in the Company’s 2017 Annual Report.

Derivative Financial Instruments

From time to time, the Company enters into U.S. Treasury note futures contracts to modify the effective duration of specific assets within the investment portfolio. U.S. Treasury futures contracts require a daily mark-to-market and settlement with the broker. At June 30, 2018 and December 31, 2017, the Company had $100 million and $400 million notional value of open U.S. Treasury futures contracts, respectively. Net realized investment gains and losses related to U.S. Treasury futures contracts for the three months and six months ended June 30, 2018 and 2017 were not significant.

4. FAIR VALUE MEASUREMENTS

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

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

Valuation of Investments Reported at Fair Value in Financial Statements

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both June 30, 2018 and December 31, 2017.

While the vast majority of the Company's fixed maturities are included in Level 2, the Company holds a number of municipal bonds and corporate bonds which are not valued by the pricing service and estimates the fair value of these bonds using an internal pricing matrix with some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3. The fair value of the fixed maturities for which the Company used an internal pricing matrix was $62 million and $127 million at June 30, 2018 and December 31, 2017, 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 $139 million and $77 million at June 30, 2018 and December 31, 2017, 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 2017 Annual Report.

Fair Value Hierarchy

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

(at June 30, 2018, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$2,019	$2,019	$—	$ —
Obligations of states, municipalities and political subdivisions	28,930	—	28,918	12
Debt securities issued by foreign governments	1,281	—	1,281	—
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,516	—	2,492	24
All other corporate bonds	27,700	—	27,535	165
Redeemable preferred stock	90	3	87	—
Total fixed maturities	62,536	2,022	60,313	201
Equity securities				
Public common stock	342	342	—	—
Non-redeemable preferred stock	82	35	47	—
Total equity securities	424	377	47	—
Other investments	61	17	—	44
Total	$63,021	$2,416	$60,360	$ 245

(at December 31, 2017, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$2,076	$2,076	$—	$ —
Obligations of states, municipalities and political subdivisions	30,915	—	30,910	5
Debt securities issued by foreign governments	1,509	—	1,509	—
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,410	—	2,371	39
All other corporate bonds	25,689	11	25,518	160
Redeemable preferred stock	95	3	92	—
Total fixed maturities	62,694	2,090	60,400	204
Equity securities				
Public common stock	339	339	—	—
Non-redeemable preferred stock	114	45	69	—
Total equity securities	453	384	69	—
Other investments	57	19	—	38
Total	$63,204	$2,493	$60,469	$ 242

During the six months ended June 30, 2018 and the year ended December 31, 2017, the Company’s transfers between Level 1 and Level 2 were not significant.

There was no significant activity in Level 3 of the hierarchy during the six months ended June 30, 2018 or the year ended December 31, 2017.

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

Financial Instruments Disclosed, But Not Carried, At Fair Value

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

(at June 30, 2018, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	$ 3,692	$3,692	$ 574	$3,083	$ 35
Financial liabilities:					
Debt	$ 6,464	$7,130	$ —	$7,130	$ —

(at December 31, 2017, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	$ 4,895	$4,895	$1,238	$3,622	$ 35
Financial liabilities:					
Debt	$ 6,471	$7,702	$—	$7,702	$ —
Commercial paper	$ 100	$100	$—	$100	$ —

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the six months ended June 30, 2018 or year ended December 31, 2017.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

(in millions)	June 30, 2018	December 31, 2017
Business Insurance	$ 2,573	$ 2,585
Bond & Specialty Insurance	550	550
Personal Insurance	782	790
Other	26	26
Total	$ 3,931	$ 3,951

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

Other Intangible Assets

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

(at June 30, 2018, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Subject to amortization			
Customer-related	$ 100	$ 7	$93
Contract-based [(1)]	208	171	37
Total subject to amortization	308	178	130
Not subject to amortization	226	—	226
Total	$ 534	$ 178	$356

(at December 31, 2017, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Subject to amortization			
Customer-related	$ 77	$ 4	$73
Contract-based [(1)]	209	167	42
Total subject to amortization	286	171	115
Not subject to amortization	227	—	227
Total	$ 513	$ 171	$342

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

Amortization expense of intangible assets was $4 million and $2 million for the three months ended June 30, 2018 and 2017, respectively and $8 million and $5 million for the six months ended June 30, 2018 and 2017, respectively. Intangible asset amortization expense is estimated to be $8 million for the remainder of 2018, $16 million in 2019, $15 million in 2020, $14 million in 2021 and $13 million in 2022.

6. INSURANCE CLAIM RESERVES

Claims and claim adjustment expense reserves were as follows:
(in millions)

	June 30, 2018	December 31, 2017
Property-casualty	$49,945	$ 49,633
Accident and health	16	17
Total	$49,961	$ 49,650

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
6. INSURANCE CLAIM RESERVES, Continued

The following table presents a reconciliation of beginning and ending property casualty reserve balances for claims and claim adjustment expenses for the six months ended June 30, 2018 and 2017:

(for the six months ended June 30, in millions)	2018	2017
Claims and claim adjustment expense reserves at beginning of year	$49,633	$47,929
Less reinsurance recoverables on unpaid losses	8,123	7,981
Net reserves at beginning of year	41,510	39,948
Estimated claims and claim adjustment expenses for claims arising in the current year	9,084	8,493
Estimated decrease in claims and claim adjustment expenses for claims arising in prior years	(268)	(214)
Total increases	8,816	8,279
Claims and claim adjustment expense payments for claims arising in:		
Current year	2,851	2,699
Prior years	5,454	4,966
Total payments	8,305	7,665
Unrealized foreign exchange (gain) loss	(102)	117
Net reserves at end of period	41,919	40,679
Plus reinsurance recoverables on unpaid losses	8,026	7,877
Claims and claim adjustment expense reserves at end of period	$49,945	$48,556

Gross claims and claim adjustment expense reserves at June 30, 2018 increased by $312 million from December 31, 2017, primarily reflecting the impacts of (i) higher volumes of insured exposures and loss cost trends for the current accident year and (ii) catastrophe losses in the first six months of 2018, partially offset by the impacts of (iii) payments related to catastrophe losses incurred in 2017, (iv) net favorable prior year reserve development and (v) payments related to operations in runoff.

Reinsurance recoverables on unpaid losses at June 30, 2018 decreased by $97 million from December 31, 2017, primarily reflecting the impacts of cash collections in the first six months of 2018.

Prior Year Reserve Development

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

For the six months ended June 30, 2018 and 2017, estimated claims and claim adjustment expenses incurred included $268 million and $214 million, respectively, of net favorable development for claims arising in prior years, including $336 million and $284 million, respectively, of net favorable prior year reserve development and $25 million of accretion of discount in each period that impacted the Company's results of operations.

Business Insurance. Net favorable prior year reserve development in the second quarter of 2018 totaled $84 million, primarily driven by better than expected loss experience in the segment’s domestic operations in (i) the workers’ compensation product line for multiple accident years, partially offset by (ii) higher than expected loss experience in the general liability product line, including a $55 million increase to environmental reserves, for accident years 2008 and prior. Net favorable prior year reserve development in the second quarter of 2017 totaled $125 million, primarily driven by better than expected loss experience in the segment's domestic operations in (i) the workers’ compensation product line for recent accident years, (ii) the commercial multi-peril product line for liability coverages for multiple accident years and (iii) the general liability product line (excluding the increase to environmental reserves) for both primary and excess coverages for multiple accident years, partially offset by (iv) a $65 million increase to environmental reserves.

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6. INSURANCE CLAIM RESERVES, Continued

Net favorable prior year reserve development in the first six months of 2018 totaled $150 million, primarily driven by better than expected loss experience in the segment’s domestic operations in (i) the workers’ compensation product line for multiple accident years and (ii) the commercial property product line for recent accident years, partially offset by (iii) higher than expected loss experience in the general liability product line, including a $55 million increase to environmental reserves, for accident years 2008 and prior and (iv) higher than expected loss experience in the commercial automobile product line for recent accident years. Net favorable prior year reserve development in the first six months of 2017 totaled $186 million, primarily driven by better than expected loss experience in the segment's domestic operations in (i) the workers' compensation product line for recent accident years, (ii) the general liability product line (excluding the increase to environmental reserves) for both primary and excess coverages for multiple accident years and (iii) the commercial multi-peril product line for liability coverages for multiple accident years, partially offset by (iv) a $65 million increase to environmental reserves. The net favorable prior year reserve development in the segment's domestic operations for the first six months of 2017 was partially offset by net unfavorable prior year reserve development in the segment's international operations in Europe due to the U.K. Ministry of Justice’s “Ogden” discount rate adjustment applied to lump sum bodily injury payouts.

Bond & Specialty Insurance. Net favorable prior year reserve development in the second quarter and first six months of 2018 totaled $89 million and $124 million, respectively, and net favorable prior year reserve development in the second quarter and first six months of 2017 totaled $78 million and $92 million, respectively, 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 second quarter and first six months of 2018 totaled $13 million and $62 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. Net favorable prior year reserve development in the second quarter and first six months of 2017 totaled $0 and $6 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

7. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in the Company's accumulated other comprehensive income (loss) (AOCI) for the six months ended June 30, 2018.

(in millions)	Changes in Net Unrealized Gains (Losses) on Investment Securities: Having No Credit Losses Recognized in the Consolidated Statement of Income	Changes in Net Unrealized Gains (Losses) on Investment Securities: Having Credit Losses Recognized in the Consolidated Statement of Income	Net Benefit Plan Assets and Obligations Recognized in Shareholders' Equity	Net Unrealized Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2017	$ 747	$ 207	$ (686)	$ (611)	$ (343)
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018	(34)	—	—	—	(34)
Income tax benefit	(12)	—	—	—	(12)
Net of income taxes	(22)	—	—	—	(22)
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018	145	7	(141)	(35)	(24)
Total effect of adoption of new guidance at January 1, 2018, net of tax	123	7	(141)	(35)	(46)
Other comprehensive income (loss) (OCI) before reclassifications, net of tax	(1,176)	(11)	—	(137)	(1,324)
Amounts reclassified from AOCI, net of tax	(9)	—	34	—	25
Net OCI, current period	(1,185)	(11)	34	(137)	(1,299)
Balance, June 30, 2018	$ (315)	$ 203	$ (793)	$ (783)	$ (1,688)

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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).

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Changes in net unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income	$(298)	$327	$(1,501)	$471
Income tax expense (benefit)	(63)	116	(316)	167
Net of taxes	(235)	211	(1,185)	304
Having credit losses recognized in the consolidated statement of income	(12)	2	(14)	2
Income tax expense (benefit)	(2)	1	(3)	1
Net of taxes	(10)	1	(11)	1
Net changes in benefit plan assets and obligations	21	17	43	34
Income tax expense	4	6	9	11
Net of taxes	17	11	34	23
Net changes in unrealized foreign currency translation	(158)	48	(152)	89
Income tax expense (benefit)	(20)	—	(15)	6
Net of taxes	(138)	48	(137)	83
Total other comprehensive income (loss)	(447)	394	(1,624)	596
Total income tax expense (benefit)	(81)	123	(325)	185
Total other comprehensive income (loss), net of taxes	$(366)	$271	$(1,299)	$411

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Having no credit losses recognized in the consolidated statement of income [(1)]	$(12)	$(84)	$(12)	$(94)
Income tax expense [(2)]	(3)	(30)	(3)	(33)
Net of taxes	(9)	(54)	(9)	(61)
Having credit losses recognized in the consolidated statement of income [(1)]	—	—	—	—
Income tax benefit [(2)]	—	—	—	—
Net of taxes	—	—	—	—
Reclassification adjustment related to benefit plan assets and obligations:				
Claims and claim adjustment expenses [(3)]	8	7	17	14
General and administrative expenses [(3)]	13	11	26	21
Total	21	18	43	35
Income tax benefit [(2)]	4	7	9	12
Net of taxes	17	11	34	23
Reclassification adjustment related to foreign currency translation [(1)]	—	—	—	—
Income tax benefit [(2)]	—	—	—	—
Net of taxes	—	—	—	—
Total reclassifications	9	(66)	31	(59)
Total income tax (expense) benefit	1	(23)	6	(21)
Total reclassifications, net of taxes	$8	$(43)	$25	$(38)

(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 7, 2018, the Company issued $500 million aggregate principal amount of 4.05% senior notes that will mature on March 7, 2048. The net proceeds of the issuance, after the deduction of the underwriting discount and expenses payable by the Company, totaled approximately $491 million. Interest on the senior notes is payable semi-annually in arrears on March 7 and September 7, commencing on September 7, 2018. Prior to September 7, 2047, 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 7, 2047 on any senior notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current Treasury rate (as defined in the senior notes), plus 15 basis points. On or after September 7, 2047, 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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
8. DEBT, Continued

redemption price equal to 100% of the principal amount of any senior notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

Debt Repayment. On May 15, 2018, the Company's $500 million, 5.80% senior notes matured and were fully paid.

Credit Agreement. On June 4, 2018, the Company entered into a five-year, $1.0 billion revolving credit agreement with a syndicate of financial institutions, replacing its five-year $1.0 billion credit agreement that was due to expire on June 7, 2018. Pursuant to the credit agreement covenants, the Company must maintain a minimum consolidated net worth, defined as shareholders' equity determined in accordance with GAAP (excluding accumulated other comprehensive income (loss)) plus (a) trust preferred securities (not to exceed 15% of total capital) and (b) mandatorily convertible securities (combined with trust preferred securities, not to exceed 25% of total capital), less goodwill and other intangible assets. That threshold is adjusted downward by an amount equal to 70% of the aggregate amount of common stock repurchased by the Company after March 31, 2018, up to a maximum deduction of $1.75 billion. The threshold was $13.999 billion at June 30, 2018 and could decline to a minimum of $12.494 billion during the term of the credit agreement, subject to the Company repurchasing an additional $2.15 billion of its common stock. In addition, the credit agreement contains other customary restrictive covenants as well as certain customary events of default, including with respect to a change in control, which would occur upon the acquisition of 35% or more of the Company's voting stock or certain changes in the composition of the Company's board of directors. At June 30, 2018, the Company was in compliance with these covenants. Generally, the cost of borrowing under this agreement will range from LIBOR plus 75 basis points to LIBOR plus 137.5 basis points, depending on the Company's credit ratings. At June 30, 2018, that cost would have been LIBOR plus 100 basis points, had there been any amounts outstanding under the credit agreement.

Commercial Paper. The Company had $0 and $100 million of commercial paper outstanding at June 30, 2018 and December 31, 2017, respectively.

9. COMMON SHARE REPURCHASES

During the three months and six months ended June 30, 2018, the Company repurchased 2.7 million and 5.2 million shares, respectively, under its share repurchase authorization, for a total cost of $350 million and $700 million, respectively. The average cost per share repurchased was $129.66 and $135.47, respectively. In addition, the Company acquired 1,374 shares and 0.3 million shares for a total cost of $0.2 million and $51 million during the three months and six months ended June 30, 2018, respectively, that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock unit awards and performance share awards, and shares used by employees to cover the price of certain stock options that were exercised. At June 30, 2018, the Company had $3.86 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share amounts)	2018	2017	2018	2017
Basic and Diluted				
Net income, as reported	$524	$595	$1,193	$1,212
Participating share-based awards — allocated income	(4)	(5)	(9)	(9)
Net income available to common shareholders — basic and diluted	$520	$590	$1,184	$1,203
Common Shares				
Basic				