

TRAVELERS COMPANIES, INC.

Form 10-K

February 16, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

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

(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

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(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common stock, without par value	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

As of June 30, 2016, the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates was \$34,172,576,191.

As of February 10, 2017, 279,685,489 shares of the registrant's common stock (without par value) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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The Travelers Companies, Inc.

Annual Report on Form 10-K

For Fiscal Year Ended December 31, 2016

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PART I

Item 1. BUSINESS

The Travelers Companies, Inc. (together with its consolidated subsidiaries, the Company) is a holding company principally engaged, through its subsidiaries, in providing a wide range of commercial and personal property and casualty insurance products and services to businesses, government units, associations and individuals. The Company is incorporated as a general business corporation under the laws of the state of Minnesota and is one of the oldest insurance organizations in the United States, dating back to 1853. The principal executive offices of the Company are located at 485 Lexington Avenue, New York, New York 10017, and its telephone number is (917) 778-6000. The Company also maintains executive offices in Hartford, Connecticut, and St. Paul, Minnesota. The term "TRV" in this document refers to The Travelers Companies, Inc., the parent holding company excluding subsidiaries.

For a summary of the Company's revenues, operating income and total assets by reportable business segments, see note 2 of notes to the consolidated financial statements.

PROPERTY AND CASUALTY INSURANCE OPERATIONS

The property and casualty insurance industry is highly competitive in the areas of price, service, product offerings, agent relationships and methods of distribution. Distribution methods include the use of independent agents, exclusive agents, direct marketing and/or salaried employees. According to A.M. Best, there are approximately 1,200 property and casualty groups in the United States, comprising approximately 2,650 property and casualty companies. Of those groups, the top 150 accounted for approximately 92% of the consolidated industry's total net written premiums in 2015. The Company competes with both foreign and domestic insurers. In addition, several property and casualty insurers writing commercial lines of business, including the Company, offer products for alternative forms of risk protection in addition to traditional insurance products. These products include large deductible programs and various forms of self-insurance, some of which utilize captive insurance companies and risk retention groups. The Company's competitive position in the marketplace is based on many factors, including the following:

ability to profitably price business, retain existing customers and obtain new business;

premiums charged, contract terms and conditions, products and services offered (including the ability to design customized programs);

agent, broker and policyholder relationships;

ability to keep pace relative to competitors with changes in technology and information systems;

speed of claims payment;

ability to provide products and services in a cost effective manner;

ability to adapt to changes in business models, technology, customer preferences or regulation impacting the markets in which the Company operates;

perceived overall financial strength and corresponding ratings assigned by independent rating agencies;

reputation, experience and qualifications of employees;

geographic scope of business; and

local presence.

In addition, the marketplace is affected by the available capacity of the insurance industry, as measured by statutory capital and surplus, and the availability of reinsurance from both traditional

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sources, such as reinsurance companies and capital markets (through catastrophe bonds), and non-traditional sources, such as hedge funds and pension plans. Industry capacity as measured by statutory capital and surplus expands and contracts primarily in conjunction with profit levels generated by the industry, less amounts returned to shareholders through dividends and share repurchases. Capital raised by debt and equity offerings may also increase statutory capital and surplus.

Pricing and Underwriting

Pricing of the Company's property and casualty insurance products is generally developed based upon an estimation of expected losses, the expenses associated with producing, issuing and servicing business and managing claims, the time value of money related to the expected loss and expense cash flows, and a reasonable allowance for profit that considers the capital needed to support the Company's business. The Company has a disciplined approach to underwriting and risk management that emphasizes product returns and profitable growth over the long-term rather than premium volume or market share. The Company's insurance subsidiaries are subject to state laws and regulations regarding rate and policy form approvals. The applicable state laws and regulations establish standards in certain lines of business to ensure that rates are not excessive, inadequate, unfairly discriminatory, or used to engage in unfair price competition. The Company's ability to increase rates and the relative timing of the process are dependent upon each respective state's requirements, as well as the competitive market environment.

Geographic Distribution

The following table shows the geographic distribution of the Company's consolidated direct written premiums for the year ended December 31, 2016:

Location	% of Total
Domestic:	
New York	10.0%
California	9.8
Texas	7.4
Pennsylvania	4.6
Florida	4.1
New Jersey	4.0
Illinois	3.9
Georgia	3.3
Massachusetts	3.1
All other domestic(1)	43.6
Total domestic	93.8
International:	
Canada	4.3
All other international(1)	1.9
Total international	6.2
Consolidated total	100.0%

(1) No other single state or country accounted for 3.0% or more of the Company's consolidated direct written premiums written in 2016.

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Catastrophe Exposure

The wide geographic distribution of the Company's property and casualty insurance operations exposes it to claims arising out of catastrophes. The Company uses various analyses and methods, including proprietary and third-party computer modeling processes, to continually monitor and analyze underwriting risks of business in natural catastrophe-prone areas and target risk areas for conventional terrorist attacks (defined as attacks other than nuclear, biological, chemical or radiological events). The Company relies, in part, upon these analyses to make underwriting decisions designed to manage its exposure on catastrophe-exposed business. For example, as a result of these analyses, the Company has at various times limited the writing of new property and homeowners business in some markets and has selectively taken underwriting actions on new and existing business. These underwriting actions on new and existing business include tightening underwriting standards, selective price increases and changes to deductibles specific to hurricane-, tornado-, wind- and hail-prone areas. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Catastrophe Modeling" and " Changing Climate Conditions." The Company also utilizes reinsurance to manage its aggregate exposures to catastrophes. See " Reinsurance."

Segment Information

The Company is organized into three reportable business segments: Business and International Insurance; Bond & Specialty Insurance; and Personal Insurance.

BUSINESS AND INTERNATIONAL INSURANCE

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

Domestic

Select Accounts provides small businesses with property and casualty products, including commercial multi-peril, commercial property, general liability, commercial auto and workers' compensation insurance.

Middle Market provides mid-sized businesses with property and casualty products, including commercial multi-peril, commercial property, general liability, commercial auto and workers' compensation insurance, as well as risk management, claims handling and other services. Middle Market generally provides these products to mid-sized businesses through *Commercial Accounts*, as well as to targeted industries through *Construction*, *Technology*, *Public Sector Services* and *Oil & Gas*. Middle Market also provides mono-line umbrella and excess coverage insurance through *Excess Casualty*.

National Accounts provides large companies with casualty products and services, including workers' compensation, general liability and automobile liability, generally utilizing loss-sensitive products, on both a bundled and unbundled basis. National Accounts also includes the Company's commercial residual market business, which primarily offers workers' compensation products and services to the involuntary market.

First Party provides traditional and customized property insurance programs to large and mid-sized customers through *National Property*, insurance for goods in transit and movable objects, as well as builders' risk insurance, through *Inland Marine*, insurance for the marine transportation industry and related services, as well as other businesses involved in international

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trade, through *Ocean Marine*, and comprehensive breakdown coverages for equipment, including property and business interruption coverages, through *Boiler & Machinery*.

Specialized Distribution provides insurance coverage for the commercial transportation industry, as well as commercial liability and commercial property policies for small, difficult to place specialty classes of commercial business primarily on an excess and surplus lines basis, through *Northland*, and tailored property and casualty programs on an admitted basis for customers with common risk characteristics or coverage requirements through *National Programs*. Specialized Distribution also serves small to medium-sized agricultural businesses, including farms, ranches, wineries and related operations, through *Agribusiness*.

International

International, through its operations in Canada, the United Kingdom and the Republic of Ireland, offers property and casualty insurance and risk management services to several customer groups, including, among others, those in the technology, public services, and financial and professional services industry sectors. In addition, International markets personal lines and small commercial insurance business in Canada. International also provides insurance coverages for foreign organizations with exposures in the United States through *Global Partner Services*. International, through its Lloyd's syndicate (Syndicate 5000), for which the Company provides 100% of the capital, underwrites five principal businesses marine, global property, accident & special risks, power & utilities and aviation.

International also includes results from J. Malucelli Participações em Seguros e Resseguros S.A. (JMalucelli) and J. Malucelli Latam S.A. in Brazil. The Company owns 49.5% of both JMalucelli, a market leader in surety coverages in Brazil, and J. Malucelli Latam S.A., which in September 2015 acquired a majority interest in JMalucelli Travelers Seguros S.A., a Colombian start-up surety provider. These joint venture investments are accounted for using the equity method and are included in "other investments" on the consolidated balance sheet. Also, as a result of a transaction that was completed in October 2015 with Paraná Banco S.A., the Company's joint venture partner in Brazil, the Company acquired 100% of the common stock of Travelers Participações em Seguros Brasil S.A., which comprises JMalucelli's former property and casualty insurance business other than surety. The Company consolidates this investment in its financial statements.

Business and International Insurance also includes the Special Liability Group (which manages the Company's asbestos and environmental liabilities) and the assumed reinsurance and certain other runoff operations, which are collectively referred to as Business and International Insurance Other.

Selected Market and Product Information

The following table sets forth Business and International Insurance's net written premiums by market and product line for the periods indicated. For a description of the markets and product lines referred to in the table, see "Principal Markets and Methods of Distribution" and "Product Lines," respectively.

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(for the year ended December 31, in millions)	2016	2015	2014	% of Total 2016
By market:				
Domestic:				
Select Accounts	\$ 2,729	\$ 2,716	\$ 2,707	18.6%
Middle Market	6,463	6,302	6,077	44.0
National Accounts	1,058	1,048	1,047	7.2
First Party	1,601	1,564	1,579	10.9
Specialized Distribution	1,094	1,111	1,074	7.5
Total Domestic	12,945	12,741	12,484	88.2
International	1,730	1,842	2,152	11.8
Total Business and International Insurance by market	\$ 14,675	\$ 14,583	\$ 14,636	100.0%

By product line:				
Domestic:				
Workers' compensation	\$ 3,945	\$ 3,915	\$ 3,792	26.9%
Commercial automobile	2,037	1,958	1,891	13.9
Commercial property	1,787	1,760	1,783	12.2
General liability	1,987	1,924	1,872	13.5
Commercial multi-peril	3,157	3,146	3,104	21.5
Other	32	38	42	0.2
Total Domestic	12,945	12,741	12,484	88.2
International	1,730	1,842	2,152	11.8
Total Business and International Insurance by product line	\$ 14,675	\$ 14,583	\$ 14,636	100.0%

Principal Markets and Methods of Distribution

Business and International Insurance markets and distributes its products through approximately 11,000 independent agencies and brokers. Agencies and brokers are serviced by 121 field offices and three customer service centers.

Business and International Insurance builds relationships with well-established, independent insurance agencies and brokers. In selecting new independent agencies and brokers to distribute its products, Business and International Insurance considers, among other attributes, each agency's or broker's financial strength, staff experience and strategic fit with the Company's operating and marketing plans. Once an agency or broker is appointed, Business and International Insurance carefully monitors its performance. The majority of products offered in the United States are distributed through a common base of independent agents and brokers, many of whom also sell the Company's Personal Insurance products. Additionally, several operations may underwrite business with agents that specialize in servicing the needs of certain of the industries served by these operations. Business and International Insurance continues to make significant investments in enhanced technology utilizing internet-based applications to provide real-time interface capabilities with independent agencies and brokers.

Select Accounts markets and distributes its products to small businesses in the United States, generally with fewer than 50 employees, through a large network of independent agents and brokers. Products offered by Select Accounts are guaranteed-cost policies, including packaged products covering property and liability exposures. Each small business risk is independently evaluated via an automated underwriting platform which in turn enables agents to quote, bind and issue a substantial amount of new small business risks at their desktop in an efficient manner that significantly reduces the time period between quoting a price on a new policy and

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issuing that policy. Risks with more complex characteristics are underwritten with the assistance of Company personnel. Select Accounts has established a strong marketing relationship with its distribution network and has provided this network with defined underwriting policies, a broad array of products and competitive prices. In addition, the Company has established centralized service centers to help agents perform many service functions, in return for a fee.

Middle Market markets and distributes its products and services primarily to mid-sized businesses in the United States with 50 to 1,000 employees through a large network of independent agents and brokers. The Company offers a full line of products to its Middle Market customers with an emphasis on guaranteed cost programs. Each account is underwritten based on the unique risk characteristics, loss history and coverage needs of the account. The ability to underwrite at this detailed level allows Middle Market to have a broad risk appetite and a diversified customer base. Within Middle Market, products and services are tailored to certain targeted industry segments of significant size and complexity that require unique underwriting, claim, risk management or other insurance-related products and services.

National Accounts markets and distributes its products and services to large companies in the United States through a network of national and regional brokers, primarily utilizing loss-sensitive products in connection with a large deductible or self-insured program and, to a lesser extent, a retrospectively rated or a guaranteed cost insurance policy. National Accounts also provides casualty products and services through retail brokers on an unbundled basis, using third-party administrators for insureds who utilize programs such as collateralized deductibles, captive reinsurers and self-insurance. National Accounts provides insurance-related services, such as risk management services, claims administration, loss control and risk management information services, either in addition to, or in lieu of, pure risk coverage, and generated \$253 million of fee income in 2016, excluding commercial residual market business. The commercial residual market business of National Accounts sells claims and policy management services to workers' compensation pools throughout the United States, and generated \$133 million of fee income in 2016. National Accounts services approximately 36% of the total workers' compensation assigned risk market, making the Company one of the largest servicing carriers in the industry. Workers' compensation accounted for approximately 72% of sales to National Accounts customers during 2016, based on direct written premiums and fees.

First Party markets and distributes its products and services to a wide customer base in the United States having specialized property and casualty coverage requirements through a large network of agents and brokers. First Party provides traditional and customized property insurance programs to large and mid-sized customers; insurance for goods in transit and movable objects; builders' risk insurance; and insurance for the marine transportation industry, providers of related services and other businesses involved in international trade. In addition, First Party provides comprehensive breakdown coverages for equipment, including property and business interruption coverages.

Specialized Distribution markets and distributes its products through brokers, wholesale agents, program managers and specialized retail agents who operate in certain markets in the United States that are not typically served by the Company's appointed retail agents, or who maintain certain affinity arrangements in specialized market segments. The wholesale excess and surplus lines market, which is characterized by the absence of rate and form regulation, allows for more flexibility to write certain classes of business. In working with agents or program managers on a brokerage basis, Specialized Distribution underwrites the business and sets the premium level. In working with agents or program managers with delegated underwriting authority, the agents produce and underwrite business subject to underwriting guidelines that have been specifically designed for each facility or program.

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International markets and distributes its products principally through brokers in each of the countries in which it operates. International also writes business at Lloyd's, where its products are distributed through Lloyd's wholesale and retail brokers. By virtue of Lloyd's worldwide licenses, Business and International Insurance has access to international markets across the world.

Pricing and Underwriting

Business and International Insurance utilizes underwriting, claims, engineering, actuarial and product development disciplines for particular industries, in conjunction with extensive amounts of proprietary data gathered and analyzed over many years, to facilitate its risk selection process and develop pricing parameters. The Company utilizes both standard industry forms and proprietary forms for the insurance policies it issues.

A portion of business in this segment, particularly in National Accounts and Construction, is written with large deductible insurance policies. Under workers' compensation insurance contracts with deductible features, the Company is obligated to pay the claimant the full amount of the claim. The Company is subsequently reimbursed by the contractholder for the deductible amount and is subject to credit risk until such reimbursement is made. At December 31, 2016, contractholder payables on unpaid losses within the deductible layer of large deductible policies and the associated receivables were each approximately \$4.61 billion. Business and International Insurance also utilizes retrospectively rated policies for another portion of the business, primarily for workers' compensation coverage. Although the retrospectively rated feature of the policy substantially reduces insurance risk for the Company, it introduces additional credit risk to the Company. Premiums receivable from holders of retrospectively rated policies totaled approximately \$70 million at December 31, 2016. Significant collateral, primarily letters of credit and, to a lesser extent, cash collateral, trusts or surety bonds, is generally obtained for large deductible plans and/or retrospectively rated policies that provide for deferred collection of deductible recoveries and/or ultimate premiums. The amount of collateral requested is predicated upon the creditworthiness of the customer and the nature of the insured risks. Business and International Insurance continually monitors the credit exposure on individual accounts and the adequacy of collateral. For additional information concerning credit risk in certain of the Company's businesses, see "Item 1A Risk Factors We are also exposed to credit risk in certain of our insurance operations and with respect to certain guarantee or indemnification arrangements that we have with third parties."

Product Lines

Business and International Insurance writes the following types of coverages:

Domestic

Workers' Compensation. Provides coverage for employers for specified benefits payable under state or federal law for workplace injuries to employees. There are typically four types of benefits payable under workers' compensation policies: medical benefits, disability benefits, death benefits and vocational rehabilitation benefits. The Company emphasizes managed care cost containment strategies, which involve employers, employees and care providers in a cooperative effort that focuses on the injured employee's early return to work and cost-effective quality care. The Company offers the following types of workers' compensation products:

guaranteed-cost insurance products, in which policy premium charges are fixed for the period of coverage and do not vary as a result of the insured's loss experience;

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loss-sensitive insurance products, including large deductible and retrospectively rated policies, in which fees or premiums are adjusted based on actual loss experience of the insured during the policy period; and

service programs, which are generally sold to the Company's National Accounts customers, where the Company receives fees rather than premiums for providing loss prevention, risk management, and claim and benefit administration services to organizations under service agreements.

The Company also participates in state assigned risk pools as a servicing carrier and pool participant.

Commercial Automobile. Provides coverage for businesses against losses incurred from personal bodily injury, bodily injury to third parties, property damage to an insured's vehicle and property damage to other vehicles and other property resulting from the ownership, maintenance or use of automobiles and trucks in a business.

Commercial Property. Provides coverage for loss of or damage to buildings, inventory and equipment from a variety of events, including, among others, hurricanes and other windstorms, tornadoes, earthquakes, hail, wildfires, severe winter weather, floods, volcanic eruptions, tsunamis, theft, vandalism, fires, explosions, terrorism and financial loss due to business interruption resulting from covered property damage. For additional information on terrorism coverages, see "Reinsurance Catastrophe Reinsurance Terrorism Risk Insurance Program." Commercial property also includes specialized equipment insurance, which provides coverage for loss or damage resulting from the mechanical breakdown of boilers and machinery, and ocean and inland marine insurance, which provides coverage for goods in transit and unique, one-of-a-kind exposures.

General Liability. Provides coverages for businesses against third-party claims arising from accidents occurring on their premises or arising out of their operations, including as a result of injuries sustained from products sold. Specialized liability policies may also include coverage for directors' and officers' liability arising in their official capacities, employment practices liability insurance, fiduciary liability for trustees and sponsors of pension, health and welfare, and other employee benefit plans, errors and omissions insurance for employees, agents, professionals and others arising from acts or failures to act under specified circumstances, as well as umbrella and excess insurance.

Commercial Multi-Peril. Provides a combination of the property and liability coverages described in the foregoing product line descriptions.

International

Provides coverage for auto and motor (similar to automobile coverage in the United States), personal property, employers' liability (similar to workers' compensation coverage in the United States), public and product liability (the equivalent of general liability), professional indemnity (similar to professional liability coverage), commercial property, surety, marine, aviation, personal accident and kidnap & ransom. Marine provides coverage for ship hulls, cargoes carried, private yachts, marine-related liability, offshore energy, ports and terminals, fine art and terrorism. Aviation provides coverage for worldwide aviation risks including physical damage and liabilities for airline, aerospace, general aviation, aviation war and space risks. Personal accident provides financial protection in the event of death or disablement due to accidental bodily injury, while kidnap & ransom provides financial protection against kidnap, hijack, illegal detention and extortion. While the covered hazards may be similar to those in the U.S. market,

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the different legal environments can make the product risks and coverage terms potentially very different from those the Company faces in the United States.

Net Retention Policy Per Risk

The following discussion reflects the Company's retention policy with respect to Business and International Insurance as of January 1, 2017. For third-party liability, Business and International Insurance generally limits its net retention, through the use of reinsurance, to a maximum of \$16.0 million per insured, per occurrence. For property exposures, Business and International Insurance generally limits its retained amount per risk to \$20.0 million per occurrence, net of reinsurance. Business and International Insurance generally retains its workers' compensation exposures. Reinsurance treaties often have aggregate limits or caps which may result in larger net per-risk retentions if the aggregate limits or caps are reached. Business and International Insurance utilizes facultative reinsurance to provide additional limits capacity or to reduce retentions on an individual risk basis. Business and International Insurance may also retain amounts greater than those described herein based upon the individual characteristics of the risk.

Geographic Distribution

The following table shows the geographic distribution of Business and International Insurance's direct written premiums for the year ended December 31, 2016:

Location	% of Total
Domestic:	
California	11.7%
New York	8.6
Texas	6.1
Illinois	4.4
New Jersey	3.7
Pennsylvania	3.6
Massachusetts	3.3
Florida	3.3
All other domestic(1)	45.1
Total domestic	89.8
International:	
Canada	7.2
All other international(1)	3.0
Total international	10.2
Total Business and International Insurance	100.0%

(1)

No other single state or country accounted for 3.0% or more of Business and International Insurance's direct written premiums in 2016.

Competition

The insurance industry is represented in the commercial marketplace by many insurance companies of varying size as well as other entities offering risk alternatives, such as self-insured retentions or captive programs. Market competition works within the insurance regulatory framework to set the price charged for insurance products and the levels of coverage and service provided. A company's success in the competitive commercial insurance landscape is largely measured by its ability

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to profitably provide insurance and services, including claims handling and risk control, at prices and terms that retain existing customers and attract new customers. See "Item 1A Risk Factors The intense competition that we face, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which we operate, could harm our ability to maintain or increase our business volumes and our profitability."

Domestic

Competitors typically write Select Accounts business through independent agents and, to a lesser extent, regional brokers, and as direct writers. Both national and regional property and casualty insurance companies compete in the Select Accounts market which generally comprises lower-hazard, "Main Street" business customers. Risks are underwritten and priced using standard industry practices and a combination of proprietary and standard industry product offerings. Competition in this market is primarily based on product offerings, service levels, ease of doing business and price.

Competitors typically write Middle Market business through independent agents and brokers. Several of Middle Market's operations require unique combinations of industry knowledge, customized coverage, specialized risk control and loss handling services, along with partnerships with agents and brokers that also focus on these markets. Competitors in this market are primarily national property and casualty insurance companies that write most classes of business using traditional products and pricing, and regional insurance companies. Companies compete based on product offerings, service levels, price and claim and loss prevention services. Efficiency through automation and response time to agent, broker and customer needs is one key to success in this market.

In the National Accounts market, competition is based on price, product offerings, claim and loss prevention services, managed care cost containment, risk management information systems and collateral requirements. National Accounts primarily competes with national property and casualty insurance companies, as well as with other underwriters of property and casualty insurance in the alternative risk transfer market, such as self-insurance plans, captives managed by others, and a variety of other risk-financing vehicles and mechanisms. The residual market division competes for state contracts to provide claims and policy management services.

First Party and Specialized Distribution compete in focused target markets. Each of these markets is different and requires unique combinations of industry knowledge, customized coverage, specialized risk control and loss handling services, along with partnerships with agents and brokers that also focus on these markets. Some of these businesses compete with national carriers with similarly dedicated underwriting and marketing groups, whereas others compete with smaller regional companies. Each of these businesses has regional structures that allow them to deliver personalized service and local knowledge to their customer base. Specialized agents and brokers, including wholesale agents and program managers, supplement this strategy. In all of these businesses, the competitive strategy typically is the application of focused industry knowledge to insurance and risk needs.

International

International competes with numerous international and domestic insurers in Canada, the United Kingdom, the Republic of Ireland and Brazil. Companies compete on the basis of price, product offerings and the level of claim and risk management services provided. The Company has developed expertise in various markets in these countries similar to those served in the United States and provides both property and casualty coverage for these markets.

At Lloyd's, International competes with other syndicates operating in the Lloyd's market as well as international and domestic insurers in the various markets where the Lloyd's operation writes business worldwide. Competition is again based on price, product and service. The Company focuses on lines it believes it can underwrite effectively and profitably with an emphasis on short-tail insurance lines.

Table of Contents**BOND & SPECIALTY INSURANCE**

Bond & Specialty Insurance provides surety, fidelity, management liability, professional liability, and other property and casualty coverages and related risk management services to a wide range of primarily domestic customers, utilizing various degrees of financially-based underwriting approaches. The range of coverages includes performance, payment and commercial surety and fidelity bonds for construction and general commercial enterprises; management liability coverages including directors' and officers' liability, employee dishonesty, employment practices liability, fiduciary liability and cyber risk for public corporations, private companies and not-for-profit organizations; professional liability coverage for a variety of professionals including, among others, lawyers and design professionals; and management liability, professional liability, property, workers' compensation, auto and general liability for financial institutions.

Selected Market and Product Information

The following table sets forth Bond & Specialty Insurance's net written premiums by product line for the periods indicated. For a description of the product lines referred to in the table, see "Principal Markets and Methods of Distribution" and "Product Lines," respectively.

(for the year ended December 31, in millions)	2016	2015	2014	% of Total 2016
Fidelity and surety	\$ 961	\$ 952	\$ 963	45.8%
General liability	954	952	961	45.4
Other	184	177	179	8.8
Total Bond & Specialty Insurance	\$ 2,099	\$ 2,081	\$ 2,103	100.0%

Principal Markets and Methods of Distribution

Bond & Specialty Insurance markets and distributes the vast majority of its products in the United States through approximately 5,800 of the same independent agencies and brokers that distribute Business and International Insurance's products in the United States. Bond & Specialty Insurance builds relationships with well-established, independent insurance agencies and brokers. In selecting new independent agencies and brokers to distribute its products, Bond & Specialty Insurance considers, among other attributes, each agency's or broker's profitability, financial stability, staff experience and strategic fit with its operating and marketing plans. Once an agency or broker is appointed, its ongoing performance is closely monitored. Bond & Specialty Insurance, in conjunction with Business and International Insurance, continues to make investments in enhanced technology utilizing internet-based applications to provide real-time interface capabilities with its independent agencies and brokers.

Pricing and Underwriting

Bond & Specialty Insurance utilizes underwriting, claims, engineering, actuarial and product development disciplines for specific accounts and industries, in conjunction with extensive amounts of proprietary data gathered and analyzed over many years, to facilitate its risk selection process and develop pricing parameters. The Company utilizes both standard industry forms and proprietary forms for the insurance policies it issues.

Product Lines

Bond & Specialty Insurance writes the following types of coverages:

Fidelity and Surety. Provides fidelity insurance coverage, which protects an insured for loss due to embezzlement or misappropriation of funds by an employee, and surety, which is a three-

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party agreement whereby the insurer agrees to pay a third party or make complete an obligation in response to the default, acts or omissions of an insured. Surety is generally provided for construction performance, legal matters such as appeals, trustees in bankruptcy and probate and other performance bonds.

General Liability. Provides coverage for specialized liability exposures as described above in more detail in the "Business and International Insurance" section of this report, as well as cyber risk coverages.

Other. Coverages include Property, Workers' Compensation, Commercial Automobile and Commercial Multi-Peril, which are described above in more detail in the "Business and International Insurance" section of this report.

Net Retention Policy Per Risk

The following discussion reflects the Company's retention policy with respect to Bond & Specialty Insurance as of January 1, 2017. For third party liability, including but not limited to umbrella liability, professional liability, directors' and officers' liability, employment practices liability and cyber risk liability, Bond & Specialty Insurance generally limits net retentions to \$25.0 million per policy. For surety protection, where insured limits are often significant, Bond & Specialty Insurance generally retains up to \$115.0 million probable maximum loss (PML) per principal, after reinsurance, but may retain higher amounts based on the type of obligation, credit quality and other credit risk factors. Reinsurance treaties often have aggregate limits or caps which may result in larger net per risk retentions if the aggregate limits or caps are reached. Bond & Specialty Insurance utilizes facultative reinsurance to provide additional limits capacity or to reduce retentions on an individual risk basis. Bond & Specialty Insurance may also retain amounts greater than those described herein based upon the individual characteristics of the risk.

Geographic Distribution

The following table shows the geographic distribution of Bond & Specialty Insurance's direct written premiums for the year ended December 31, 2016:

State	% of Total
California	9.5%
New York	7.5
Texas	7.2
Florida	5.7
Illinois	4.6
Pennsylvania	3.9
Massachusetts	3.3
Ohio	3.0
All other(1)	55.3
Total	100.0%

(1) No other single state accounted for 3.0% or more of Bond & Specialty Insurance's direct written premiums in 2016.

Competition

The competitive landscape in which Bond & Specialty Insurance operates is affected by many of the same factors described previously for Business and International Insurance. Competitors in this

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market are primarily national property and casualty insurance companies that write most classes of business and, to a lesser extent, regional insurance companies and companies that have developed niche programs for specific industry segments.

Bond & Specialty Insurance underwrites and markets its products to all sizes of businesses and other organizations, as well as individuals. The Company believes that its reputation for timely and consistent decision making, a nationwide network of local underwriting, claims and industry experts and strong producer and customer relationships, as well as its ability to offer its customers a full range of products, provides Bond & Specialty Insurance an advantage over many of its competitors and enables it to compete effectively in a complex, dynamic marketplace. The Company believes that the ability of Bond & Specialty Insurance to cross-sell its products to customers of Business and International Insurance and Personal Insurance provides additional competitive advantages for the Company. See "Item 1A Risk Factors The intense competition that we face, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which we operate, could harm our ability to maintain or increase our business volumes and our profitability."

PERSONAL INSURANCE

Personal Insurance writes a broad range of property and casualty insurance covering individuals' personal risks. The primary products of automobile and homeowners insurance are complemented by a broad suite of related coverages.

Selected Product and Distribution Channel Information

The following table sets forth net written premiums for Personal Insurance's business by product line for the periods indicated. For a description of the product lines referred to in the following table, see " Product Lines." In addition, see " Principal Markets and Methods of Distribution" for a discussion of distribution channels for Personal Insurance's product lines.

(for the year ended December 31, in millions)	2016	2015	2014	% of Total 2016
By product line:				
Automobile	\$ 4,327	\$ 3,700	\$ 3,390	52.9%
Homeowners and Other	3,857	3,757	3,775	47.1
Total Personal Insurance	\$ 8,184	\$ 7,457	\$ 7,165	100.0%

Principal Markets and Methods of Distribution

Personal Insurance products are marketed and distributed primarily through approximately 10,900 active independent agencies located throughout the United States, supported by personnel in nine sales regions. In addition, sales and service are provided to customers through five contact centers. While the principal markets for Personal Insurance products continue to be in states along the East Coast, California and Texas, the business continues to expand its geographic presence across the United States.

In selecting new independent agencies to distribute its products, Personal Insurance considers, among other attributes, each agency's profitability, financial stability, staff experience and strategic fit with its operating and marketing plans. Once an agency is appointed, Personal Insurance carefully monitors its performance.

Agents can access the Company's agency service portal for a number of resources including customer service, marketing and claims management. In addition, agencies can choose to shift the

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ongoing service responsibility for Personal Insurance's customers to one of the Company's Customer Care Centers, where the Company provides, on behalf of an agency, a comprehensive array of customer service needs, including response to billing and coverage inquiries, and policy changes. Approximately 1,400 agents take advantage of this service alternative, for which they generally pay a fee.

Personal Insurance also markets and distributes its products through additional channels, including corporations that make the company's product offerings available to their employees primarily through payroll deduction, consumer associations and affinity groups. Personal Insurance handles the sales and service for these programs either through a sponsoring independent agent or through the Company's contact center locations. In addition, since 1995, the Company has had a marketing agreement with GEICO to underwrite homeowners business for certain of their auto customers.

The Company also markets its insurance products directly to consumers, largely through online channels. The Company's investment in the direct-to-consumer initiative, which began in 2009, has generated growing but still modest premium volume for Personal Insurance in recent years, reflective of the Company's targeted customer base. The direct-to-consumer initiative, while intended to enhance the Company's long-term ability to compete successfully in a consumer-driven marketplace, is expected to remain modest with respect to premium volume and remain unprofitable for a number of years.

Pricing and Underwriting

Personal Insurance has developed a product management methodology that integrates the disciplines of underwriting, claim, actuarial and product development. This approach is designed to maintain high quality underwriting discipline and pricing segmentation. Proprietary data accumulated over many years is analyzed and Personal Insurance uses a variety of risk differentiation models to facilitate its pricing segmentation. The Company's product management area establishes underwriting guidelines integrated with its filed pricing and rating plans, which enable Personal Insurance to effectively execute its risk selection and pricing processes.

Pricing for personal automobile insurance is driven in large part by changes in the frequency of claims and changes in severity, including inflation in the cost of automobile repairs, medical care and resolution of liability claims. Pricing in the homeowners business is driven in large part by changes in the frequency of claims and changes in severity, including inflation in the cost of building supplies, labor and household possessions. In addition to the normal risks associated with any multiple peril coverage, the profitability and pricing of both homeowners and automobile insurance are affected by the incidence of natural disasters, particularly those related to weather and, for homeowners insurance, earthquakes. Insurers writing personal lines property and casualty policies may be unable to increase prices until some time after the costs associated with coverage have increased, primarily because of state insurance rate regulation. The pace at which an insurer can change rates in response to increased costs depends, in part, on whether the applicable state law requires prior approval of rate increases or notification to the regulator either before or after a rate change is imposed. In states with prior approval laws, rates must be approved by the regulator before being used by the insurer. In states having "file-and-use" laws, the insurer must file rate changes with the regulator, but does not need to wait for approval before using the new rates. A "use-and-file" law requires an insurer to file rates within a period of time after the insurer begins using the new rate. Approximately one-half of the states require prior approval of most rate changes. In addition, changes to methods of marketing and underwriting in some jurisdictions are subject to state-imposed restrictions, which can make it more difficult for an insurer to significantly manage catastrophe exposures.

The Company's ability or willingness to raise prices, modify underwriting terms or reduce exposure to certain geographies may be limited due to considerations of public policy, the competitive environment, the evolving political environment and/or changes in the general economic climate. The

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Company also may choose to write business it might not otherwise write in some states for strategic purposes, such as improving access to other commercial or personal underwriting opportunities. In choosing to write business in some states, the Company also considers the costs and benefits of those states' residual markets and guaranty funds, as well as other property and casualty business the Company writes in those states.

Product Lines

The primary coverages in Personal Insurance are personal automobile and homeowners and other insurance sold to individuals. Personal Insurance had approximately 6.9 million active policies (e.g., policies-in-force) at December 31, 2016.

Personal Insurance writes the following types of coverages:

Personal Automobile provides coverage for liability to others for both bodily injury and property damage, uninsured motorist protection, and for physical damage to an insured's own vehicle from collision, fire, flood, hail and theft. In addition, many states require policies to provide first-party personal injury protection, frequently referred to as no-fault coverage.

Homeowners and Other provides protection against losses to residences and contents from a variety of perils (excluding flooding) as well as coverage for personal liability. The Company writes homeowners insurance for dwellings, condominiums and tenants, and rental properties. The Company also writes coverage for boats and yachts and valuable personal items such as jewelry, and also writes coverages for umbrella liability, identity fraud, and weddings and special events.

Net Retention Policy Per Risk

The following discussion reflects the Company's retention policy with respect to Personal Insurance as of January 1, 2017. Personal Insurance generally retains its primary personal auto exposures in their entirety. For personal property insurance, there is an \$8.0 million maximum retention per risk, net of reinsurance. Personal Insurance uses facultative reinsurance to provide additional limits capacity or to reduce retentions on an individual risk basis. Personal Insurance issues umbrella policies up to a maximum limit of \$10.0 million per risk. Personal Insurance may also retain amounts greater than those described herein based upon the individual characteristics of the risk.

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Geographic Distribution

The following table shows the geographic distribution of Personal Insurance's direct written premiums for the year ended December 31, 2016:

State	% of Total
New York	13.1%
Texas(1)	9.9
Pennsylvania	6.7
California	6.2
Florida	5.2
Georgia	5.1
New Jersey	5.0
Connecticut	4.1
Virginia	3.9
Maryland	3.1
South Carolina	3.0
All others(2)	34.7
Total	100.0%

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- (1) The percentage for Texas includes business written by the Company through a fronting agreement with another insurer.
- (2) No other single state accounted for 3.0% or more of Personal Insurance's direct written premiums in 2016.

Competition

Although national companies write the majority of this business, Personal Insurance also faces competition from many regional and hundreds of local companies. Personal Insurance primarily competes based on breadth of product offerings, price, service (including claims handling), ease of doing business, stability of the insurer and name recognition. Personal Insurance competes for business within each independent agency since these agencies also offer policies of competing companies. At the agency level, competition is primarily based on price, service (including claims handling), the level of automation and the development of long-term relationships with individual agents. In recent years, most independent personal insurance agents have begun utilizing price comparison rating technology, sometimes referred to as "comparative raters," as a cost-efficient means of obtaining quotes from multiple companies. Because the use of this technology facilitates the process of generating multiple quotes, the technology has increased price comparison on new business and, increasingly, on renewal business. Personal Insurance also competes with insurance companies that use exclusive agents or salaried employees to sell their products, as well as those that employ direct marketing strategies. See "Item 1A Risk Factors The intense competition that we face, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which we operate, could harm our ability to maintain or increase our business volumes and our profitability."

CLAIMS MANAGEMENT

The Company's claim functions are managed through its Claims Services organization, with locations in the United States and in the other countries where it does business. With more than 12,000 employees, Claims Services employs a group of professionals with diverse skills, including claim

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adjusters, appraisers, attorneys, investigators, engineers, accountants, nurses, system specialists and training, management and support personnel. Approved external service providers, such as investigators, attorneys and, in the rare circumstances when necessary, independent adjusters and appraisers, are available for use as appropriate.

United States field claim management teams located in 21 claim centers and 53 satellite and specialty-only offices in 45 states are organized to maintain focus on the specific claim characteristics unique to the businesses within the Company's business segments. Claim teams with specialized skills, required licenses, resources and workflows are matched to the unique exposures of those businesses, with local claims management dedicated to achieving optimal results within each segment. The Company's home office operations provide additional support in the form of workflow design, quality management, information technology, advanced management information and data analysis, training, financial reporting and control, and human resources strategy. This structure permits the Company to maintain the economies of scale of a large, established company while retaining the agility to respond promptly to the needs of customers, brokers, agents and underwriters. Claims management for International, while generally provided locally by staff in the respective international locations due to local knowledge of applicable laws and regulations, is also managed by the Company's Claims Services organization in the United States to leverage that knowledge base and to share best practices.

An integral part of the Company's strategy to benefit customers and shareholders is its continuing industry leadership in the fight against insurance fraud through its Investigative Services unit. The Company has a nationwide staff of experts who investigate a wide array of insurance fraud schemes using in-house forensic resources and other technological tools. This staff also has specialized expertise in fire scene examinations, medical provider fraud schemes and data mining. The Company also dedicates investigative resources to ensure that violations of law are reported to and prosecuted by law enforcement agencies.

Claims Services uses technology, management information and data analysis to assist the Company in reviewing its claim practices and results in order to evaluate and improve its claims management performance. The Company's claims management strategy is focused on segmentation of claims and appropriate technical specialization to drive effective claim resolution. The Company continually monitors its investment in claim resources to maintain an effective focus on claim outcomes and a disciplined approach to continual improvement. The Company operates a state-of-the-art claims training facility which offers hands-on experiential learning to help ensure that its claim professionals are properly trained. In recent years, the Company has invested significant additional resources in many of its claim handling operations and routinely monitors the effect of those investments to ensure a consistent optimization among outcomes, cost and service.

Claims Services' catastrophe response strategy is to respond to a significant catastrophic event using its own personnel, enabling it to minimize reliance on independent adjusters and appraisers. The Company has developed a large dedicated catastrophe response team and trained a large Enterprise Response Team of existing employees who can be deployed on short notice in the event of a catastrophe that generates claim volume exceeding the capacity of the dedicated catastrophe response team. In recent years, these internal resources were successfully deployed to respond to a record number of catastrophe claims.

REINSURANCE

The Company reinsures a portion of the risks it underwrites in order to manage its exposure to losses and to protect its capital. The Company cedes to reinsurers a portion of these risks and pays premiums based upon the risk and exposure of the policies subject to such reinsurance. The Company utilizes a variety of reinsurance agreements to manage its exposure to large property and casualty losses, including catastrophe, treaty, facultative and quota share reinsurance. Ceded reinsurance

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involves credit risk, except with regard to mandatory pools and associations, and is predominantly subject to aggregate loss limits. Although the reinsurer is liable to the Company to the extent of the reinsurance ceded, the Company remains liable as the direct insurer on all risks reinsured. Reinsurance recoverables are reported after reductions for known insolvencies and after allowances for uncollectible amounts. The Company also holds collateral, including trust agreements, escrow funds and letters of credit, under certain reinsurance agreements. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. Reinsurers are selected based on their financial condition, business practices, the price of their product offerings and the value of collateral provided. After reinsurance is purchased, the Company has limited ability to manage the credit risk to a reinsurer. In addition, in a number of jurisdictions, particularly the European Union and the United Kingdom, a reinsurer is permitted to transfer a reinsurance arrangement to another reinsurer, which may be less creditworthy, without a counterparty's consent, provided that the transfer has been approved by the applicable regulatory and/or court authority.

For additional information regarding reinsurance, see note 5 of notes to the consolidated financial statements and "Item 1A Risk Factors." For a description of reinsurance-related litigation, see note 16 of notes to the consolidated financial statements.

Catastrophe Reinsurance

Catastrophes can be caused by a variety of events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions and other naturally-occurring events, such as solar flares. Catastrophes can also result from terrorist attacks and other intentionally destructive acts including those involving nuclear, biological, chemical, radiological, cyber-attacks, explosions and infrastructure failures. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and earthquakes may produce significant damage in larger areas, especially those areas that are heavily populated. The Company generally seeks to manage its exposure to catastrophes through individual risk selection and the purchase of catastrophe reinsurance. The following discussion summarizes the Company's catastrophe reinsurance coverage at January 1, 2017.

Corporate Catastrophe Excess-of-Loss Reinsurance Treaty. This treaty covers the accumulation of certain property losses arising from one or multiple occurrences for the period January 1, 2017 through and including December 31, 2017: 75% (\$1.5 billion) of qualifying losses covered by the treaty and 25% (\$500 million) of qualifying losses retained by the Company part of \$2.0 billion excess of \$3.0 billion. Qualifying losses for each occurrence are after a \$100 million deductible. The treaty covers all of the Company's exposures in the United States and Canada and their territories and possessions, the Caribbean Islands, Mexico and all waters contiguous thereto. The treaty only provides coverage for terrorism events in limited circumstances and excludes entirely losses arising from nuclear, biological, chemical or radiological attacks.

Catastrophe Bonds. The Company has catastrophe protection through an indemnity reinsurance agreement with Long Point Re III Ltd. (Long Point Re III), an independent Cayman Islands company licensed as a Class C insurer in the Cayman Islands. The reinsurance agreement expires in May 2018 and meets the requirements to be accounted for as reinsurance in accordance with the guidance for reinsurance contracts. In connection with the reinsurance agreement, Long Point Re III issued notes (generally referred to as "catastrophe bonds") to investors in amounts equal to the full coverage provided under the reinsurance agreement as described below. The proceeds were deposited in a reinsurance trust account. The businesses covered by this reinsurance agreement are subsets of the Company's overall insurance portfolio, comprising specified property coverages spread across the following geographic locations: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Virginia and Vermont.

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The reinsurance agreement with Long Point Re III provides coverage of up to \$300 million to the Company for losses from tropical cyclones, earthquakes, severe thunderstorms or winter storms in the locations listed above. The attachment point and maximum limit under this agreement are reset annually to adjust the expected loss of the layer within a predetermined range. For the period May 16, 2016 through and including May 15, 2017, the Company is entitled to begin recovering amounts under this reinsurance agreement if the covered losses in the covered area for a single occurrence reach an initial attachment amount of \$1.968 billion. The full \$300 million coverage amount is available on a proportional basis until such covered losses reach a maximum \$2.468 billion. The coverage under the reinsurance agreement is limited to specified property coverage written in Personal Insurance; Select Accounts, Middle Market (excluding Excess Casualty), First Party (excluding Boiler & Machinery) and Specialized Distribution in Business and International Insurance; and Bond & Specialty Insurance Other in Bond & Specialty Insurance.

Under the terms of the reinsurance agreement, the Company is obligated to pay annual reinsurance premiums to Long Point Re III for the reinsurance coverage. Amounts payable to the Company under the reinsurance agreement with respect to any covered event cannot exceed the Company's actual losses from such event. The principal amount of the catastrophe bonds will be reduced by any amounts paid to the Company under the reinsurance agreement.

As with any reinsurance agreement, there is credit risk associated with collecting amounts due from reinsurers. With regard to Long Point Re III, the credit risk is mitigated by a reinsurance trust account that has been funded by Long Point Re III with money market funds that invest solely in direct government obligations and obligations backed by the U.S. government with maturities of no more than 13 months. The money market funds must have a principal stability rating of at least AAAM by Standard & Poor's on the issuance date of the bonds and thereafter must be rated by Standard & Poor's. Other permissible investments include money market funds which invest in repurchase and reverse repurchase agreements collateralized by direct government obligations and obligations of any agency backed by the U.S. government with terms of no more than 397 calendar days, and cash.

At the time the agreement was entered into with Long Point Re III, the Company evaluated the applicability of the accounting guidance that addresses variable interest entities or VIEs. Under this guidance, an entity that is formed for business purposes is considered a VIE if: (a) the equity investors lack the direct or indirect ability through voting rights or similar rights to make decisions about an entity's activities that have a significant effect on the entity's operations, or (b) the equity investors do not provide sufficient financial resources for the entity to support its activities. Additionally, a company that absorbs a majority of the expected losses from a VIE's activities or is entitled to receive a majority of the entity's expected residual returns, or both, is considered to be the primary beneficiary of the VIE and is required to consolidate the VIE in the company's financial statements.

As a result of the evaluation of the reinsurance agreement with Long Point Re III, the Company concluded that it was a VIE because the conditions described in items (a) and (b) above were present. However, while Long Point Re III was determined to be a VIE, the Company concluded that it did not have a variable interest in the entity, as the variability in its results, caused by the reinsurance agreement, is expected to be absorbed entirely by the investors in the catastrophe bonds issued by Long Point Re III and residual amounts earned by it, if any, are expected to be absorbed by the equity investors (the Company has neither an equity nor a residual interest in Long Point Re III).

Accordingly, the Company is not the primary beneficiary of Long Point Re III and does not consolidate that entity in the Company's consolidated financial statements. Additionally, because the Company has no intention to pursue any transaction that would result in it acquiring interest in and becoming the primary beneficiary of Long Point Re III, the consolidation of that entity in the Company's consolidated financial statements in future periods is unlikely.

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The Company has not incurred any losses that have resulted or are expected to result in a recovery under the Long Point Re III agreement since its inception.

Northeast Property Catastrophe Excess-of-Loss Reinsurance Treaty. This treaty provides up to \$800 million part of \$850 million of all perils (coverage for terrorism events in limited circumstances and excludes entirely losses from nuclear, biological and radiological attacks), subject to a \$2.25 billion retention, from Virginia to Maine for the period July 1, 2016 through and including June 30, 2017. Losses from a covered event (occurring over several days) anywhere in the United States, Canada, the Caribbean and Mexico and waters contiguous thereto may be used to satisfy the retention. Recoveries under the catastrophe bonds (if any) would be first applied to reduce losses subject to this treaty.

Middle Market Earthquake Catastrophe Excess-of-Loss Reinsurance Treaty. This earthquake excess-of-loss treaty provides for up to \$150 million part of \$165 million of coverage, subject to a \$70 million retention, for losses arising from an earthquake, including fire following and sprinkler leakage incurred under policies written by Technology, Public Sector Services and Commercial Accounts in Business and International Insurance for the period July 1, 2016 through and including June 30, 2017.

Personal Insurance Earthquake Catastrophe Excess-of-Loss Reinsurance Treaty. This earthquake excess-of-loss treaty provides for up to \$200 million of coverage, subject to a \$150 million retention, for losses arising from an earthquake, including fire following and sprinkler leakage incurred under policies written by Personal Insurance for the period January 1, 2017 through December 31, 2017.

Canadian Property Catastrophe Excess-of-Loss Reinsurance Treaty. This contract, effective for the period July 1, 2016 through and including June 30, 2017, covers the accumulation of net property losses arising out of one occurrence on business written by the Company's Canadian businesses. The treaty covers all property written by the Company's Canadian businesses for Canadian insureds, including, but not limited to, habitational property, commercial property, inland marine, ocean marine and auto physical damages exposures, with respect to risks located worldwide, written for Canadian insureds. The treaty provides coverage for 50% of losses in excess of C\$100 million (US\$74 million at December 31, 2016), up to C\$200 million (US\$149 million at December 31, 2016) and for 100% of losses in excess of C\$200 million (US\$149 million at December 31, 2016), up to C\$600 million (US\$446 million at December 31, 2016).

Other International Reinsurance Treaties. For other business underwritten in Canada, as well as for business written in the United Kingdom, the Republic of Ireland, Brazil and in the Company's operations at Lloyd's, separate reinsurance protections are purchased locally that have lower net retentions more commensurate with the size of the respective local balance sheet. The Company conducts an ongoing review of its risk and catastrophe coverages and makes changes as it deems appropriate.

Terrorism Risk Insurance Program. The Terrorism Risk Insurance Program is a Federal program administered by the Department of the Treasury authorized through December 31, 2020 that provides for a system of shared public and private compensation for certain insured losses resulting from certified acts of terrorism. For a further description of the program, including the Company's estimated deductible under the program in 2017, see note 5 of notes to the consolidated financial statements and "Item 1A Risk Factors Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance."

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CLAIMS AND CLAIM ADJUSTMENT EXPENSE RESERVES

Claims and claim adjustment expense reserves represent management's estimate of ultimate unpaid costs of losses and loss adjustment expenses for claims that have been reported and claims that have been incurred but not yet reported.

The Company continually refines its reserve estimates as part of a regular ongoing process that includes review of key assumptions, underlying variables and historical loss experience. The Company reflects adjustments to reserves in the results of operations in the periods in which the estimates are changed. In establishing reserves, the Company takes into account estimated recoveries for reinsurance, salvage and subrogation. The reserves are also reviewed regularly by qualified actuaries employed by the Company. For additional information on the process of estimating reserves and a discussion of underlying variables and risk factors, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates."

The process of estimating loss reserves involves a high degree of judgment and is subject to a number of variables. These variables (discussed by product line in the "Critical Accounting Estimates" section of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations") are affected by both internal and external events, such as changes in claims handling procedures, inflation, judicial trends and legislative changes, among others. The impact of many of these items on ultimate costs for claims and claim adjustment expenses is difficult to estimate. Reserve estimation difficulties also differ significantly by product line due to differences in the underlying insurance contract (e.g., claims-made versus occurrence), claim complexity, the volume of claims, the potential severity of individual claims, the determination of the occurrence date for a claim, and reporting lags (the time between the occurrence of the insured event and when it is actually reported to the insurer). Informed judgment is applied throughout the process.

The Company derives estimates for unreported claims and development with respect to reported claims principally from actuarial analyses of historical patterns of loss development by accident year for each type of exposure and business unit. Similarly, the Company derives estimates of unpaid loss adjustment expenses principally from actuarial analyses of historical development patterns of the relationship of loss adjustment expenses to losses for each line of business and type of exposure. For a description of the Company's reserving methods for asbestos and environmental claims, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Asbestos Claims and Litigation," and " Environmental Claims and Litigation."

Certain of the Company's claims and claim adjustment expense reserves are discounted to present value. See note 7 of notes to the consolidated financial statements for further discussion.

Reserves on Statutory Accounting Basis

At December 31, 2016, 2015 and 2014, claims and claim adjustment expense reserves (net of reinsurance) prepared in accordance with U.S. generally accepted accounting principles (GAAP reserves) were \$44 million higher, \$41 million higher and \$29 million higher, respectively, than those reported in the Company's respective annual reports filed with insurance regulators, which are prepared in accordance with statutory accounting practices (statutory reserves).

The differences between GAAP and statutory reserves are primarily due to the differences in GAAP and statutory accounting for two items: (1) fees associated with billing of required reimbursements under large deductible business, and (2) the accounting for retroactive reinsurance. For large deductible business, the Company pays the deductible portion of a casualty insurance claim and then seeks reimbursement from the insured, plus a fee. This fee is reported as fee income for GAAP reporting, but as an offset to claim expenses paid for statutory reporting. Retroactive reinsurance balances result from reinsurance placed to cover losses on insured events occurring prior to the

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inception of a reinsurance contract. For GAAP reporting, retroactive reinsurance balances are included in reinsurance recoverables and result in lower net reserve amounts. Statutory accounting practices require retroactive reinsurance balances to be recorded in other liabilities as contra-liabilities rather than in loss reserves.

Asbestos and Environmental Claims

Asbestos and environmental claims are segregated from other claims and are handled separately by the Company's Special Liability Group, a separate unit staffed by dedicated legal, claim, finance and engineering professionals. For additional information on asbestos and environmental claims, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Asbestos Claims and Litigation" and " Environmental Claims and Litigation."

INTERCOMPANY REINSURANCE POOLING ARRANGEMENTS

Most of the Company's domestic insurance subsidiaries are members of an intercompany property and casualty reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's statutory capital and surplus rather than just on its own statutory capital and surplus. Under such arrangements, the members share substantially all insurance business that is written and allocate the combined premiums, losses and expenses.

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 Corp. (S&P). Rating agencies typically issue two types of ratings for insurance companies: claims-paying (or financial strength) ratings, which reflect the rating agency's assessment of an insurer's ability to meet its financial obligations to policyholders, and debt ratings, which reflect the rating agency's assessment of a company's prospects for repaying its debts and are considered by lenders in connection with the setting of interest rates and terms for a company's short- and long-term borrowings. Agency ratings are not a recommendation to buy, sell or hold any security, and they may be revised or withdrawn at any time by the rating agency. Each agency's rating should be evaluated independently of any other agency's rating. The system and the number of rating categories can vary widely from rating agency to rating agency. Customers usually focus on claims-paying ratings, while creditors focus on debt ratings. Investors use both to evaluate a company's overall financial strength. The ratings issued on the Company or its subsidiaries by any of these agencies are announced publicly and are available on the Company's website and from the agencies.

A downgrade in one or more of the Company's claims-paying ratings could negatively impact the Company's business volumes and competitive position because demand for certain of its products may be reduced, particularly because some customers require that the Company maintain minimum ratings to enter into, maintain or renew business with it.

Additionally, a downgrade in one or more of the Company's debt ratings could adversely impact the Company's ability to access the capital markets and other sources of funds, including in the syndicated bank loan market, and/or result in higher financing costs. For example, downgrades in the Company's debt ratings could result in higher interest expense under the Company's revolving credit agreement (under which the cost of borrowing could range from LIBOR plus 87.5 basis points to LIBOR plus 150 basis points, depending on the Company's debt ratings), the Company's commercial paper program, or in the event that the Company were to access the capital markets by issuing debt or similar types of securities. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for a discussion of the Company's

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revolving credit agreement and commercial paper program. The Company considers the level of increased cash funding requirements in the event of a ratings downgrade as part of the evaluation of the Company's liquidity requirements. The Company currently believes that a one- to two-notch downgrade in its debt ratings would not result in a material increase in interest expense under its existing credit agreement and commercial paper programs. In addition, the Company considers the impact of a ratings downgrade as part of the evaluation of its common share repurchases.

Claims Paying Ratings

The following table summarizes the current claims-paying (or financial strength) ratings of the Travelers Reinsurance Pool, Travelers C&S Co. of America, Travelers Personal Insurance single state companies, Travelers C&S Co. of Europe, Ltd., Travelers Insurance Company of Canada, The Dominion of Canada General Insurance Company and Travelers Insurance Company Limited as of February 16, 2017. The table presents the position of each rating in the applicable agency's rating scale.

	A.M. Best	Moody's	S&P	Fitch
Travelers Reinsurance Pool(a)(b)	A++ (1 st of 16)	Aa2 (3 rd of 21)	AA (3 rd of 21)	AA (3 rd of 21)
Travelers C&S Co. of America	A++ (1 st of 16)	Aa2 (3 rd of 21)	AA (3 rd of 21)	AA (3 rd of 21)
First Floridian Auto and Home Ins. Co.	A (4 th of 16)			AA (3 rd of 21)
The Premier Insurance Company of Massachusetts	A (3 rd of 16)			
Travelers C&S Co. of Europe, Ltd.	A++ (1 st of 16)	Aa2 (3 rd of 21)	AA (3 rd of 21)	
Travelers Insurance Company of Canada	A++ (1 st of 16)		AA (4 th of 21)	
The Dominion of Canada General Insurance Company	A (3 rd of 16)			
Travelers Insurance Company Limited	A (3 rd of 16)		AA (3 rd of 21)	

(a)

The Travelers Reinsurance Pool consists of: The Travelers Indemnity Company, The Charter Oak Fire Insurance Company, The Phoenix Insurance Company, The Travelers Indemnity Company of Connecticut, The Travelers Indemnity Company of America, Travelers Property Casualty Company of America, Travelers Commercial Casualty Company, TravCo Insurance Company, The Travelers Home and Marine Insurance Company, Travelers Casualty and Surety Company, Northland Insurance Company, Northfield Insurance Company, Northland Casualty Company, American Equity Specialty Insurance Company, The Standard Fire Insurance Company, The Automobile Insurance Company of Hartford, Connecticut, Travelers Casualty Insurance Company of America, Farmington Casualty Company, Travelers Commercial Insurance Company, Travelers Casualty Company of Connecticut, Travelers Property Casualty Insurance Company, Travelers Personal Security Insurance Company, Travelers Personal Insurance Company, Travelers Excess and Surplus Lines Company, St. Paul Fire and Marine Insurance Company, St. Paul Surplus Lines Insurance Company, The Travelers Casualty Company, St. Paul Protective Insurance Company, Travelers Constitution State Insurance Company, St. Paul Guardian Insurance Company, St. Paul Mercury Insurance Company, Fidelity and Guaranty Insurance Underwriters, Inc., Discover Property & Casualty Insurance Company, Discover Specialty Insurance Company and United States Fidelity and Guaranty Company.

(b)

The following affiliated companies are 100% reinsured by one of the pool participants noted in (a) above: Fidelity and Guaranty Insurance Company, Gulf Underwriters Insurance Company, American Equity Insurance Company, Select Insurance Company, The Travelers Lloyds Insurance Company and Travelers Lloyds of Texas Insurance Company.

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Debt Ratings

The following table summarizes the current debt, trust preferred securities and commercial paper ratings of the Company and its subsidiaries as of February 16, 2017. The table also presents the position of each rating in the applicable agency's rating scale.

	A.M. Best	Moody's	S&P	Fitch
Senior debt	a+ (5 th of 22)	A2 (6 th of 21)	A (6 th of 22)	A (6 th of 22)
Subordinated debt	a (7 th of 22)	A3 (7 th of 21)	A (7 th of 22)	BBB+ (8 th of 22)
Junior subordinated debt	bbb+ (8 th of 22)	A3 (7 th of 21)	BBB+ (8 th of 22)	BBB+ (8 th of 22)
Trust preferred securities	bbb+ (8 th of 22)	A3 (7 th of 21)	BBB+ (8 th of 22)	BBB+ (8 th of 22)
Commercial paper	AMB-1+(1 st of 6)	P-1 (1 st of 4)	A-1 (2 nd of 10)	F-1 (2 nd of 8)

Rating Agency Actions

The following rating agency actions were taken with respect to the Company from February 11, 2016, the date on which the Company filed its Annual Report on Form 10-K for the year ended December 31, 2015, through February 16, 2017:

On July 22, 2016, A.M. Best affirmed all ratings of the Company, except ratings for Travelers Insurance Company Limited, which were affirmed on December 23, 2016. The outlook for all ratings is stable.

On September 19, 2016, Fitch affirmed all ratings of the Company. The outlook for all ratings is stable.

INVESTMENT OPERATIONS

The 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 Company closely monitors the duration of its fixed maturity investments, and the Company's investment purchases and sales are executed with the objective of having adequate funds available to satisfy its insurance and debt obligations. Generally, the expected principal and interest payments produced by the Company's fixed maturity portfolio adequately fund the estimated runoff of the Company's insurance reserves. The Company's management of the duration of the fixed maturity investment portfolio, including its use of Treasury futures at times, has produced a duration that is less than the estimated duration of the Company's net insurance liabilities. The substantial amount by which the fair value of the fixed maturity portfolio exceeds the value of the net insurance liabilities, as well as the positive cash flow from newly sold policies and the large amount of high quality liquid bonds, contributes to the Company's ability to fund claim payments without having to sell illiquid assets or access credit facilities.

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 involve varying degrees of risk, including less stable rates of return and less liquidity.

See note 3 of notes to the consolidated financial statements for additional information regarding the Company's investment portfolio.

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REGULATION

U.S. State and Federal Regulation

TRV's domestic insurance subsidiaries are collectively licensed to transact insurance business in all U.S. states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands and are subject to regulation in the various states and jurisdictions in which they transact business. The extent of regulation varies, but generally derives from statutes that delegate regulatory, supervisory and administrative authority to a department of insurance in each state and jurisdiction. The regulation, supervision and administration relate, among other things, to standards of solvency that must be met and maintained, the licensing of insurers and their agents, the nature of and limitations on investments, premium rates, restrictions on the size of risks that may be insured under a single policy, reserves and provisions for unearned premiums, losses and other obligations, deposits of securities for the benefit of policyholders, approval of policy forms and the regulation of market conduct, including the use of credit information in underwriting as well as other underwriting and claims practices. State insurance departments also conduct periodic examinations of the financial condition and market conduct of insurance companies and require the filing of financial and other reports on a quarterly and annual basis.

State insurance regulation continues to evolve in response to the changing economic and business environment as well as efforts by regulators internationally to develop a consistent approach to regulation. While the U.S. federal government has not historically regulated the insurance business, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established a Federal Insurance Office (FIO) within the U.S. Department of the Treasury. While the FIO has limited regulatory authority, it has been active in the discussions to develop international regulatory standards for the insurance industry. In response to these international efforts, the state insurance regulators, through the National Association of Insurance Commissioners (NAIC), are working with the Federal Reserve and the FIO to consider and develop changes to the U.S. regulatory framework.

These changes are evidenced by the incorporation of supervisory colleges into the U.S. regulatory framework. A supervisory college is a forum of the regulators having jurisdictional authority over a holding company's various insurance subsidiaries, including foreign insurance subsidiaries, convened to meet with the insurer's executive management, to evaluate the insurer from both a group-wide and legal-entity basis. Some of the items evaluated during the colleges include the insurer's business strategies, enterprise risk management and corporate governance.

While insurance in the United States is regulated on a legal-entity basis, the NAIC has adopted changes to its Model Holding Company Act that some states, including the State of Connecticut, have enacted to allow the insurance commissioner to be designated as the group-wide supervisor (i.e., lead regulator) for the insurance holding company system based upon certain criteria, including the place of domicile of the insurance subsidiaries holding the majority of the insurance group's premiums, assets, or liabilities. Based upon these criteria, the State of Connecticut Insurance Department is designated as TRV's lead regulator and conducts the supervisory colleges for the Company.

Insurance Regulation Concerning Dividends from Insurance Subsidiaries. TRV's principal domestic insurance subsidiaries are domiciled in the state of Connecticut. The Connecticut insurance holding company laws require notice to, and approval by, the state insurance commissioner for the declaration or payment of any dividend from an insurance subsidiary that, together with other distributions made within the preceding twelve months, exceeds the greater of 10% of the insurance subsidiary's statutory capital and surplus as of the preceding December 31, or the insurance subsidiary's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices and by state regulation. This declaration or payment is further limited by adjusted unassigned surplus, as determined in accordance with statutory accounting practices.

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The insurance holding company laws of other states in which TRV's domestic insurance subsidiaries are domiciled generally contain similar, although in some instances somewhat more restrictive, limitations on the payment of dividends.

Rate and Rule Approvals. TRV's domestic insurance subsidiaries are subject to each state's laws and regulations regarding rate and rule approvals. The applicable laws and regulations generally establish standards to ensure that rates are not excessive, inadequate, unfairly discriminatory or used to engage in unfair price competition. An insurer's ability to adjust rates and the relative timing of the process are dependent upon each state's requirements. Many states have enacted variations of competitive ratemaking laws, which allow insurers to set certain premium rates for certain classes of insurance without having to obtain the prior approval of the state insurance department.

Requirements for Exiting Geographic Markets and/or Canceling or Nonrenewing Policies. Several states have laws and regulations which may impact the timing and/or the ability of an insurer to either discontinue or substantially reduce its writings in that state. These laws and regulations typically require prior notice, and in some instances insurance department approval, prior to discontinuing a line of business or withdrawing from that state, and they allow insurers to cancel or non-renew certain policies only for certain specified reasons.

Assessments for Guaranty Funds and Second-Injury Funds and Other Mandatory Assigned Risk and Reinsurance Arrangements. Virtually all states require insurers licensed to do business in their state, including TRV's domestic insurance subsidiaries, to bear a portion of the loss suffered by some claimants because of the insolvency of other insurers. Many states also have laws that establish second-injury funds to provide compensation to injured employees for aggravation of a prior condition or injury.

TRV's domestic insurance subsidiaries are also required to participate in various involuntary assigned risk pools, principally involving workers' compensation, automobile insurance, property windpools in states prone to property damage from hurricanes and FAIR plans, as well as automobile assigned risk plans the results of which are not pooled with other carriers, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase that coverage in the voluntary market.

Assessments may include any charge mandated by statute or regulatory authority that is related directly or indirectly to underwriting activities. Examples of such mechanisms include, but are not limited to, the Florida Hurricane Catastrophe Fund, Florida Citizens Property Insurance Corporation, National Workers' Compensation Reinsurance Pool, various workers' compensation related funds (e.g., the Florida Special Disability Trust), North Carolina Beach Plan, Louisiana Citizens Property Insurance Corporation, and the Texas Windstorm Insurance Association. Amounts payable or paid as a result of arrangements that are in substance reinsurance, including certain involuntary pools where insurers are required to assume premiums and losses from those pools, are accounted for as reinsurance (e.g., National Workers' Compensation Reinsurance Pool, North Carolina Beach Plan). Amounts related to assessments from arrangements that are not reinsurance are reported as a component of "General and Administrative Expenses," such as the Florida Special Disability Trust. For additional information concerning assessments for guaranty funds and second-injury funds and other mandatory assigned risk and reinsurance agreements including state-funding mechanisms, see "Item 1A Risk Factors."

Insurance Regulatory Information System. The NAIC developed the Insurance Regulatory Information System (IRIS) to help state regulators identify companies that may require regulatory attention. Financial examiners review annual financial statements and the results of key financial ratios based on year-end data with the goal of identifying insurers that appear to require immediate regulatory attention. Each ratio has an established "usual range" of results. A ratio result falling

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outside the usual range, however, is not necessarily considered adverse; rather, unusual values are used as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company may become subject to regulatory scrutiny or, depending on the company's financial condition, regulatory action if certain of its key IRIS ratios fall outside the usual ranges and the insurer's financial condition is trending downward.

Based on preliminary 2016 IRIS ratios calculated by the Company for its lead domestic insurance subsidiaries, The Travelers Indemnity Company had results outside the normal range for one IRIS ratio due to the size of its investments in certain non-fixed maturity securities, while Travelers Casualty and Surety Company and St. Paul Fire and Marine Insurance Company had results outside the normal range for one IRIS ratio due to the amount of dividends received from their subsidiaries. In 2015, The Travelers Indemnity Company and Travelers Casualty and Surety Company had results outside the normal range for these same ratios.

Management does not anticipate regulatory action as a result of the 2016 IRIS ratio results for the lead insurance subsidiaries or their insurance subsidiaries. In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required.

Risk-Based Capital (RBC) Requirements. The NAIC has an RBC requirement which sets forth minimum capital standards for most property and casualty insurance companies and is intended to raise the level of protection for policyholder obligations. The Company's U.S. insurance subsidiaries are subject to these NAIC RBC requirements based on laws that have been adopted by individual states. These requirements subject insurers having policyholders' surplus less than that required by the RBC calculation to varying degrees of regulatory action, depending on the level of capital inadequacy. Each of the Company's U.S. insurance subsidiaries had policyholders' surplus at December 31, 2016 significantly above the level at which any RBC regulatory action would occur.

While there is currently no group regulatory capital requirement in the United States, a comparison of an insurer's policyholders' surplus on a combined basis to the legal entity NAIC RBC requirements on a combined basis can provide useful information regarding an insurance group's overall capital adequacy in the U.S. The amount of policyholders' surplus held by the Company's U.S. insurance subsidiaries at December 31, 2016 determined on a combined basis significantly exceeded the level at which the subsidiaries would be subject to RBC regulatory action (company action level) on a combined basis at that date.

The formulas have not been designed to differentiate among adequately capitalized companies that operate with levels of capital above the RBC requirement. Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank these companies.

Investment Regulation. Insurance company investments must comply with applicable laws and regulations which prescribe the kind, quality and concentration of investments. In general, these laws and regulations permit investments in federal, state and municipal obligations, corporate bonds, preferred and common equity securities, mortgage loans, real estate and certain other investments, subject to specified limits and certain other qualifications. At December 31, 2016, the Company was in compliance with these laws and regulations.

International Regulation

TRV's insurance subsidiaries based in Canada, and the Canadian branch of one of the Company's U.S. insurance subsidiaries, are regulated for solvency purposes by the Office of the Superintendent of Financial Institutions (OSFI) under the provisions of the Insurance Companies Act (Canada). These Canadian subsidiaries and the Canadian branch are also subject to Canadian provincial and territorial

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insurance legislation which regulates market conduct, including pricing, underwriting, coverage and claim conduct, in varying degrees by province/territory and by product line.

TRV's insurance subsidiaries based in the United Kingdom are regulated by two regulatory bodies, The Prudential Regulation Authority (PRA) and The Financial Conduct Authority (FCA). The PRA's primary objective is to promote the safety and soundness of insurers for the protection of policyholders, while the FCA has three operational objectives: (i) to secure an appropriate degree of protection for consumers, (ii) to protect and enhance the integrity of the UK financial system, and (iii) to promote effective competition in the interests of consumers. TRV's insurance operations in the Republic of Ireland are conducted through the Irish branch of Travelers Insurance Company Limited which is supervised by the Insurance Supervision Departments of the Central Bank of Ireland (as to conduct) and also by the PRA.

TRV's managing agency (Travelers Syndicate Management Limited) (TSML) of its Lloyd's syndicate (Syndicate 5000) is also regulated by the PRA and the FCA, which have delegated certain regulatory responsibilities to the Council of Lloyd's. Travelers Syndicate 5000 is able to write business in over 75 jurisdictions throughout the world by virtue of Lloyd's international licenses. In each such jurisdiction, the policies written by TSML, as part of Lloyd's, are subject to the laws and insurance regulations of that jurisdiction. Travelers Underwriting Agency Limited, which as an insurance intermediary is regulated by the FCA, produces insurance business for Travelers Syndicate 5000.

A TRV subsidiary, Travelers Casualty and Surety Company, has a representative office in China. The representative office is regulated by the China Insurance Regulatory Commission. A TRV subsidiary, TCI Global Services, Inc., has a liaison office in India. Insurance business in India is regulated by the Insurance Regulatory and Development Authority. TRV's Brazilian operations are regulated by the Superintendencia de Seguros Privados (SUSEP).

Regulators in these jurisdictions require insurance companies to maintain certain levels of capital depending on, among other things, the type and amount of insurance policies in force. Each of the Company's foreign insurance subsidiaries had capital above their respective regulatory requirements at December 31, 2016.

Insurance Holding Company Statutes

As a holding company, TRV is not regulated as an insurance company. However, since TRV owns capital stock in insurance subsidiaries, it is subject to state insurance holding company statutes, as well as certain other laws, of each of its insurance subsidiaries' states of domicile. All holding company statutes, as well as other laws, require disclosure and, in some instances, prior approval of material transactions between an insurance company and an affiliate. The holding company statutes and other laws also require, among other things, prior approval of an acquisition of control of a domestic insurer, some transactions between affiliates and the payment of extraordinary dividends or distributions.

Insurance Regulations Concerning Change of Control. Many state insurance regulatory laws contain provisions that require advance approval by state agencies of any change in control of an insurance company that is domiciled, or, in some cases, having substantial business that it is deemed to be commercially domiciled, in that state.

The laws of many states also contain provisions requiring pre-notification to state agencies prior to any change in control of a non-domestic insurance company admitted to transact business in that state. While these pre-notification statutes do not authorize the state agency to disapprove the change of control, they do authorize issuance of cease and desist orders with respect to the non-domestic insurer if it is determined that some conditions, such as undue market concentration, would result from the acquisition.

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Any transactions that would constitute a change in control of any of TRV's insurance subsidiaries would generally require prior approval by the insurance departments of the states in which the insurance subsidiaries are domiciled or commercially domiciled. They may also require pre-acquisition notification in those states that have adopted pre-acquisition notification provisions and in which such insurance subsidiaries are admitted to transact business.

Two of TRV's insurance subsidiaries and its operations at Lloyd's are domiciled in the United Kingdom. Insurers in the United Kingdom are subject to change of control restrictions, including approval of the PRA and FCA. TRV's insurance subsidiaries domiciled in, or authorized to conduct insurance business in, Canada are also subject to regulatory change of control restrictions, including approval of OSFI. TRV's Brazilian operations are subject to regulatory change of control and other share transfer restrictions, including approval of SUSEP.

These requirements may deter, delay or prevent transactions affecting the control of or the ownership of common stock, including transactions that could be advantageous to TRV's shareholders.

Regulatory Developments

For a discussion of domestic and international regulatory developments, see "Item 1A Risk Factors" including "Changes in federal regulation could impose significant burdens on us and otherwise adversely impact our results" and "Regulatory changes outside of the United States, including in Canada and the European Union, could adversely impact our results of operations and limit our growth."

ENTERPRISE RISK MANAGEMENT

As a large property and casualty insurance enterprise, the Company is exposed to many risks. These risks are a function of the environments within which the Company operates. Since certain risks can be correlated with other risks, an event or a series of events can impact multiple areas of the Company simultaneously and have a material effect on the Company's results of operations, financial position and/or liquidity. These exposures require an entity-wide view of risk and an understanding of the potential impact on all aspects of the Company's operations. It also requires the Company to manage its risk-taking to be within its risk appetite in a prudent and balanced effort to create and preserve value for all of the Company's stakeholders. This approach to Company-wide risk evaluation and management is commonly called Enterprise Risk Management (ERM). ERM activities involve both the identification and assessment of a broad range of risks and the execution of synchronized strategies to effectively manage such risks. Effective ERM also includes the determination of the Company's risk capital needs, which takes into account regulatory requirements and credit rating considerations, in addition to economic and other factors.

ERM at the Company is an integral part of its business operations. All corporate leaders and the Board of Directors are engaged in ERM. ERM involves risk-based analytics, as well as reporting and feedback throughout the enterprise in support of the Company's long-term financial strategies and objectives.

The Company uses various analyses and methods, including proprietary and third-party computer modeling processes, to make underwriting and reinsurance decisions designed to manage its exposure to catastrophic events. In addition to catastrophe modeling and analysis, the Company also models and analyzes its exposure to other extreme events. The Company also utilizes proprietary and third-party computer modeling processes to evaluate capital adequacy. These analytical techniques are an integral component of the Company's ERM process and further support the Company's long-term financial strategies and objectives.

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In addition to the day-to-day ERM activities within the Company's operations, key internal risk management functions include, among others, the Management and Operating Committees (comprised of the Company's Chief Executive Officer and the other most senior members of management), the Enterprise and Business Risk Committees of management, the Credit Committee, Chief Legal Officer, General Counsel, the Chief Ethics and Compliance Officer, the Corporate Actuarial group, the Corporate Audit group, the Corporate Controller group, the Accounting Policy group and the Enterprise Underwriting group, among others. A senior executive team comprised of the Executive Vice President of ERM, the Chief Risk Officer and the Chief Underwriting Officer oversees the ERM process. The mission of this team is to facilitate risk assessment and to collaborate in implementing effective risk management strategies throughout the Company. Another strategic ERM objective of this team includes working across the Company to enhance effective and realistic risk modeling capabilities as part of the Company's overall effort to understand and manage its portfolio of risks to be within its risk appetite. Board oversight of ERM is provided by the Risk Committee of the Board of Directors, which reviews the strategies, processes and controls pertaining to the Company's insurance operations and oversees the implementation, execution and performance of the Company's ERM program.

The Company's ERM efforts build upon the foundation of an effective internal control environment. ERM expands the internal control objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations, to fostering, leading and supporting an integrated, risk-based culture within the Company that focuses on value creation and preservation. However, the Company can provide only reasonable, not absolute, assurance that these objectives will be met. Further, the design of any risk management or control system must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. As a result, the possibility of material financial loss remains in spite of the Company's significant ERM efforts. An investor should carefully consider the risks and all of the other information set forth in this annual report, including the discussions included in "Item 1A Risk Factors," "Item 7A Quantitative and Qualitative Disclosures About Market Risk," and "Item 8 Financial Statements and Supplementary Data."

OTHER INFORMATION

Customer Concentration

In the opinion of the Company's management, no material part of the business of the Company and its subsidiaries is dependent upon a single customer or group of customers, the loss of any one of which would have a material adverse effect on the Company, and no one customer or group of affiliated customers accounts for 10% or more of the Company's consolidated revenues.

Employees

At December 31, 2016, the Company had approximately 30,900 employees. The Company believes that its employee relations are satisfactory. None of the Company's employees are subject to collective bargaining agreements.

Sources of Liquidity

For a discussion of the Company's sources of funds and maturities of the long-term debt of the Company, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources," and note 8 of notes to the consolidated financial statements.

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Taxation

For a discussion of tax matters affecting the Company and its operations, see note 12 of notes to the consolidated financial statements.

Financial Information about Reportable Business Segments

For financial information regarding reportable business segments of the Company, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations," and note 2 of notes to the consolidated financial statements.

Intellectual Property

The Company relies on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect its intellectual property. With respect to trademarks specifically, the Company has registrations in many countries, including the United States, for its material trademarks, including the "Travelers" name and the Company's iconic umbrella logo. The Company has the right to retain its material trademark rights in perpetuity, so long as it satisfies the use and registration requirements of all applicable countries. The Company regards its trademarks as highly valuable assets in marketing its products and services and vigorously seeks to protect its trademarks against infringement. See "Item 1A Risk Factors Intellectual property is important to our business, and we may be unable to protect and enforce our own intellectual property or we may be subject to claims for infringing the intellectual property of others."

Company Website, Social Media and Availability of SEC Filings

The Company's Internet website is www.travelers.com. Information on the Company's website is not incorporated by reference herein and is not a part of this Form 10-K. The Company makes available free of charge on its website or provides a link on its website to the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. To access these filings, go to the Company's website and under the "For Investors" heading, click on "Financial Information" then "SEC Filings."

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://www.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 at <http://investor.travelers.com>.

Glossary of Selected Insurance Terms

Accident year	The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.
Adjusted unassigned surplus	Unassigned surplus as of the most recent statutory annual report reduced by twenty-five percent of that year's unrealized appreciation in value or revaluation of assets or unrealized profits on investments, as defined in that report.

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Admitted insurer Agent	A company licensed to transact insurance business within a state. A licensed individual who sells and services insurance policies, receiving a commission from the insurer for selling the business and a fee for servicing it. An independent agent represents multiple insurance companies and searches the market for the best product for its client.
Annuity	A contract that pays a periodic benefit over the remaining life of a person (the annuitant), the lives of two or more persons or for a specified period of time.
Assigned risk pools	Reinsurance pools which cover risks for those unable to purchase insurance in the voluntary market. Possible reasons for this inability include the risk being too great or the profit being too small under the required insurance rate structure. The costs of the risks associated with these pools are charged back to insurance carriers in proportion to their direct writings.
Assumed reinsurance	Insurance risks acquired from a ceding company.
Book value per share	Total common shareholders' equity divided by the number of common shares outstanding.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered.
Capacity	The percentage of statutory capital and surplus, or the dollar amount of exposure, that an insurer or reinsurer is willing or able to place at risk. Capacity may apply to a single risk, a program, a line of business or an entire book of business. Capacity may be constrained by legal restrictions, corporate restrictions or indirect restrictions.
Captive	A closely-held insurance company whose primary purpose is to provide insurance coverage to the company's owners or their affiliates.
Case reserves	Claim department estimates of anticipated future payments to be made on each specific individual reported claim.
Casualty insurance	Insurance which is primarily concerned with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured resulting therefrom. It includes, but is not limited to, employers' liability, workers' compensation, public liability, automobile liability, personal liability and aviation liability insurance. It excludes certain types of losses that by law or custom are considered as being exclusively within the scope of other types of insurance, such as fire or marine.

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Catastrophe	A severe loss caused by various natural events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions and other naturally-occurring events, such as solar flares. Catastrophes can also be man-made, such as terrorist attacks and other intentionally destructive acts including those involving nuclear, biological, chemical, radiological, cyber-attacks, explosions and infrastructure failures. Each catastrophe has unique characteristics and catastrophes are not predictable as to timing or amount. Their effects are included in net and operating income and claims and claim adjustment expense reserves upon occurrence. A catastrophe may result in the payment of reinsurance reinstatement premiums and assessments from various pools.
Catastrophe loss	Loss and directly identified loss adjustment expenses from catastrophes.
Catastrophe reinsurance	A form of excess-of-loss reinsurance which, subject to a specified limit, indemnifies the ceding company for the amount of loss in excess of a specified retention with respect to an accumulation of losses and related reinsurance reinstatement premiums resulting from a catastrophic event. The actual reinsurance document is called a "catastrophe cover." These reinsurance contracts are typically designed to cover property insurance losses but can be written to cover casualty insurance losses such as from workers' compensation policies.
Cede; ceding company	When an insurer reinsures its liability with another insurer or a "cession," it "cedes" business and is referred to as the "ceding company."
Ceded reinsurance	Insurance risks transferred to another company as reinsurance. See "Reinsurance."
Claim	Request by an insured for indemnification by an insurance company for loss incurred from an insured peril.
Claim adjustment expenses	See "Loss adjustment expenses (LAE)."
Claims and claim adjustment expenses	See "Loss" and "Loss adjustment expenses (LAE)."
Claims and claim adjustment expense reserves	See "Loss reserves."
Cohort	A group of items or individuals that share a particular statistical or demographic characteristic. For example, all claims for a given product in a given market for a given accident year would represent a cohort of claims.

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Combined ratio	<p>For Statutory Accounting Practices (SAP), the combined ratio is the sum of the SAP loss and LAE ratio and the SAP underwriting expense ratio as defined in the statutory financial statements required by insurance regulators. The combined ratio as used in this report is the equivalent of, and is calculated in the same manner as, the SAP combined ratio except that the SAP underwriting expense ratio is based on net <i>written</i> premium and the underwriting expense ratio as used in this report is based on net <i>earned</i> premiums.</p> <p>The combined ratio is an indicator of the Company's underwriting discipline, efficiency in acquiring and servicing its business and overall underwriting profitability. A combined ratio under 100% generally indicates an underwriting profit. A combined ratio over 100% generally indicates an underwriting loss.</p> <p>Other companies' method of computing a similarly titled measure may not be comparable to the Company's method of computing this ratio.</p>
Combined ratio excluding incremental impact of direct to consumer initiative	<p>The combined ratio excluding incremental impact of direct to consumer initiative is the combined ratio adjusted to exclude the direct, variable impact of the Company's direct-to-consumer initiative in Personal Insurance.</p>
Commercial multi-peril policies	<p>Refers to policies which cover both property and third-party liability exposures.</p>
Commutation agreement	<p>An agreement between a reinsurer and a ceding company whereby the reinsurer pays an agreed-upon amount in exchange for a complete discharge of all obligations, including future obligations, between the parties for reinsurance losses incurred.</p>
Debt-to-total capital ratio	<p>The ratio of debt to total capitalization.</p>
Debt-to-total capital ratio excluding net unrealized gain (loss) on investments	<p>The ratio of debt to total capitalization excluding the after-tax impact of net unrealized investment gains and losses.</p>
Deductible	<p>The amount of loss that an insured retains.</p>
Deferred acquisition costs (DAC)	<p>Incremental direct costs of acquired and renewal insurance contracts, consisting of commissions (other than contingent commissions) and premium-related taxes that are deferred and amortized to achieve a matching of revenues and expenses when reported in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP).</p>

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Deficiency	With regard to reserves for a given liability, a deficiency exists when it is estimated or determined that the reserves are insufficient to pay the ultimate settlement value of the related liabilities. Where the deficiency is the result of an estimate, the estimated amount of deficiency (or even the finding of whether or not a deficiency exists) may change as new information becomes available.
Demand surge	Significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services, commonly as a result of a large catastrophe resulting in significant widespread property damage.
Direct written premiums	The amounts charged by an insurer to insureds in exchange for coverages provided in accordance with the terms of an insurance contract. The amounts exclude the impact of all reinsurance premiums, either assumed or ceded.
Earned premiums or premiums earned	That portion of property casualty premiums written that applies to the expired portion of the policy term. Earned premiums are recognized as revenues under both SAP and GAAP.
Excess and surplus lines insurance	Insurance for risks not covered by standard insurance due to the unique nature of the risk. Risks could be placed in excess and surplus lines markets due to any number of characteristics, such as loss experience, unique or unusual exposures, or insufficient experience in business. Excess and surplus lines are less regulated by the states, allowing greater flexibility to design specific insurance coverage and negotiate pricing based on the risks to be secured.
Excess liability	Additional casualty coverage above a layer of insurance exposures.
Excess-of-loss reinsurance	Reinsurance that indemnifies the reinsured against all or a specified portion of losses over a specified dollar amount or "retention."
Exposure	The measure of risk used in the pricing of an insurance product. The change in exposure is the amount of change in premium on policies that renew attributable to the change in portfolio risk.
Facultative reinsurance	The reinsurance of all or a portion of the insurance provided by a single policy. Each policy reinsured is separately negotiated.
Fair Access to Insurance Requirements (FAIR) Plan	A residual market mechanism which provides property insurance to those unable to obtain such insurance through the regular (voluntary) market. FAIR plans are set up on a state-by-state basis to cover only those risks in that state. For more information, see "residual market (involuntary business)."
Fidelity and surety programs	Fidelity insurance coverage protects an insured for loss due to embezzlement or misappropriation of funds by an employee. Surety is a three-party agreement in which the insurer agrees to pay a third party or make complete an obligation in response to the default, acts or omissions of an insured.

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Gross written premiums	The direct and assumed contractually determined amounts charged to the policyholders for the effective period of the contract based on the terms and conditions of the insurance contract.
Ground-up analysis	<p>A method to estimate ultimate claim costs for a given cohort of claims such as an accident year/product line component. It involves analyzing the exposure and claim activity at an individual insured level and then through the use of deterministic or stochastic scenarios and/or simulations, estimating the ultimate losses for those insureds. The total losses for the cohort are then the sum of the losses for each individual insured.</p> <p>In practice, the method is sometimes simplified by performing the individual insured analysis only for the larger insureds, with the costs for the smaller insureds estimated via sampling approaches (extrapolated to the rest of the smaller insured population) or aggregate approaches (using assumptions consistent with the ground-up larger insured analysis).</p>
Guaranteed cost products	An insurance policy where the premiums charged will not be adjusted for actual loss experience during the covered period.
Guaranty fund	A state-regulated mechanism that is financed by assessing insurers doing business in those states. Should insolvencies occur, these funds are available to meet some or all of the insolvent insurer's obligations to policyholders.
Holding company liquidity	Total cash, short-term invested assets and other readily marketable securities held by the holding company.
Incurred but not reported (IBNR) reserves	Reserves for estimated losses and LAE that have been incurred but not yet reported to the insurer. This includes amounts for unreported claims, development on known cases, and re-opened claims.
Inland marine	A broad type of insurance generally covering articles that may be transported from one place to another, as well as bridges, tunnels and other instrumentalities of transportation. It includes goods in transit, generally other than transoceanic, and may include policies for movable objects such as personal effects, personal property, jewelry, furs, fine art and others.
IRIS ratios	Financial ratios calculated by the NAIC to assist state insurance departments in monitoring the financial condition of insurance companies.
Large deductible policy	<p>An insurance policy where the customer assumes at least \$25,000 or more of each loss. Typically, the insurer is responsible for paying the entire loss under those policies and then seeks reimbursement from the insured for the deductible amount.</p>
Lloyd's	An insurance marketplace based in London, England, where brokers, representing clients with insurable risks, deal with Lloyd's underwriters, who represent investors. The investors are grouped together into syndicates that provide capital to insure the risks.

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Loss	An occurrence that is the basis for submission and/or payment of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the policy.
Loss adjustment expenses (LAE)	The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.
Loss and LAE ratio	For SAP, the loss and LAE ratio is the ratio of incurred losses and loss adjustment expenses less certain administrative services fee income to net earned premiums as defined in the statutory financial statements required by insurance regulators. The loss and LAE ratio as used in this report is calculated in the same manner as the SAP ratio. The loss and LAE ratio is an indicator of the Company's underwriting discipline and underwriting profitability. Other companies' method of computing a similarly titled measure may not be comparable to the Company's method of computing this ratio.
Loss reserves	Liabilities established by insurers and reinsurers to reflect the estimated cost of claims incurred that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance it has written. Reserves are established for losses and for LAE, and consist of case reserves and IBNR reserves. As the term is used in this document, "loss reserves" is meant to include reserves for both losses and LAE.
Loss reserve development	The increase or decrease in incurred claims and claim adjustment expenses as a result of the re-estimation of claims and claim adjustment expense reserves at successive valuation dates for a given group of claims. Loss reserve development may be related to prior year or current year development.
Losses incurred	The total losses sustained by an insurance company under a policy or policies, whether paid or unpaid. Incurred losses include a provision for IBNR.
National Association of Insurance Commissioners (NAIC)	An organization of the insurance commissioners or directors of all 50 states, the District of Columbia and the five U.S. territories organized to promote consistency of regulatory practice and statutory accounting standards throughout the United States.
Net written premiums	Direct written premiums plus assumed reinsurance premiums less premiums ceded to reinsurers.
New business volume	The amount of written premium related to new policyholders and additional products sold to existing policyholders.
Operating income (loss)	Net income (loss) excluding the after-tax impact of net realized investment gains (losses), discontinued operations and cumulative effect of changes in accounting principles when applicable.

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Operating income (loss) per share	Operating income (loss) on a per share basis.
Operating return on equity	The ratio of operating income to average equity excluding net unrealized investment gains and losses and discontinued operations, net of tax.
Pool	An organization of insurers or reinsurers through which particular types of risks are underwritten with premiums, losses and expenses being shared in agreed-upon percentages.
Premiums	The amount charged during the year on policies and contracts issued, renewed or reinsured by an insurance company.
Probable maximum loss (PML)	The maximum amount of loss that the Company would be expected to incur on a policy if a loss were to occur, giving effect to collateral, reinsurance and other factors.
Property insurance	Insurance that provides coverage to a person or business with an insurable interest in tangible property for that person's or business's property loss, damage or loss of use.
Quota share reinsurance	Reinsurance wherein the insurer cedes an agreed-upon fixed percentage of liabilities, premiums and losses for each policy covered on a pro rata basis.
Rates	Amounts charged per unit of insurance.
Redundancy	With regard to reserves for a given liability, a redundancy exists when it is estimated or determined that the reserves are greater than what will be needed to pay the ultimate settlement value of the related liabilities. Where the redundancy is the result of an estimate, the estimated amount of redundancy (or even the finding of whether or not a redundancy exists) may change as new information becomes available.
Reinstatement premiums	Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess-of-loss reinsurance treaties.
Reinsurance	The practice whereby one insurer, called the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.
Reinsurance agreement	A contract specifying the terms of a reinsurance transaction.
Renewal premium change	The estimated change in average premium on policies that renew, including rate and exposure changes. Such statistics are subject to change based on a number of factors, including changes in estimates.
Renewal rate change	The estimated change in average premium on policies that renew, excluding exposure changes. Such statistics are subject to change based on a number of factors, including changes in estimates.

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Residual market (involuntary business)	Insurance market which provides coverage for risks for those unable to purchase insurance in the voluntary market. Possible reasons for this inability include the risks being too great or the profit potential too small under the required insurance rate structure. Residual markets are frequently created by state legislation either because of lack of available coverage such as: property coverage in a windstorm prone area or protection of the accident victim as in the case of workers' compensation. The costs of the residual market are usually charged back to the direct insurance carriers in proportion to the carriers' voluntary market shares for the type of coverage involved.
Retention	The amount of exposure a policyholder company retains on any one risk or group of risks. The term may apply to an insurance policy, where the policyholder is an individual, family or business, or a reinsurance policy, where the policyholder is an insurance company.
Retention rate	The percentage of prior period premiums (excluding renewal premium changes), accounts or policies available for renewal in the current period that were renewed. Such statistics are subject to change based on a number of factors, including changes in estimates.
Retrospective premiums	Premiums related to retrospectively rated policies.
Retrospective rating	A plan or method which permits adjustment of the final premium or commission on the basis of actual loss experience, subject to certain minimum and maximum limits.
Return on equity	The ratio of net income (loss) less preferred dividends to average shareholders' equity.
Risk-based capital (RBC)	A measure adopted by the NAIC and enacted by states for determining the minimum statutory policyholders' surplus requirements of insurers. Insurers having total adjusted capital less than that required by the RBC calculation will be subject to varying degrees of regulatory action depending on the level of capital inadequacy.
Risk retention group	An alternative form of insurance in which members of a similar profession or business band together to self insure their risks.
Runoff business	An operation which has been determined to be nonstrategic; includes non-renewals of in-force policies and a cessation of writing new business, where allowed by law.
Salvage	The amount of money an insurer recovers through the sale of property transferred to the insurer as a result of a loss payment.
S-curve method	A mathematical function which depicts an initial slow change, followed by a rapid change and then ending in a slow change again. This results in an "S" shaped line when depicted graphically. The actuarial application of these curves fit the reported data to date for a particular cohort of claims to an S-curve to project future activity for that cohort.

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Second-injury fund	The employer of an injured, impaired worker is responsible only for the workers' compensation benefit for the most recent injury; the second-injury fund would cover the cost of any additional benefits for aggravation of a prior condition. The cost is shared by the insurance industry and self-insureds, funded through assessments to insurance companies and self-insureds based on either premiums or losses.
Self-insured retentions	That portion of the risk retained by a person for its own account.
Servicing carrier	An insurance company that provides, for a fee, various services including policy issuance, claims adjusting and customer service for insureds in a reinsurance pool.
Statutory accounting practices (SAP)	The practices and procedures prescribed or permitted by domiciliary state insurance regulatory authorities in the United States for recording transactions and preparing financial statements. SAP generally reflect a modified going concern basis of accounting.
Statutory capital and surplus	The excess of an insurance company's admitted assets over its liabilities, including loss reserves, as determined in accordance with SAP. Admitted assets are assets of an insurer prescribed or permitted by a state to be recognized on the statutory balance sheet. Statutory capital and surplus is also referred to as "statutory surplus" or "policyholders' surplus."
Statutory net income	As determined under SAP, total revenues less total expenses and income taxes.
Structured settlements	Periodic payments to an injured person or survivor for a determined number of years or for life, typically in settlement of a claim under a liability policy, usually funded through the purchase of an annuity.
Subrogation	A principle of law incorporated in insurance policies, which enables an insurance company, after paying a claim under a policy, to recover the amount of the loss from another person or entity who is legally liable for it.
Tenure impact	As new business volume increases and accounts for a greater percentage of earned premiums, the loss and LAE ratio generally worsens initially, as the loss and LAE ratio for new business is generally higher than the ratio for business that has been retained for longer periods. As poorer performing business leaves and pricing segmentation improves on renewal of the business that is retained, the loss and LAE ratio is expected to improve in future years.
Third-party liability	A liability owed to a claimant (third party) who is not one of the two parties to the insurance contract. Insured liability claims are referred to as third-party claims.
Total capitalization	The sum of total shareholders' equity and debt.

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Treaty reinsurance	The reinsurance of a specified type or category of risks defined in a reinsurance agreement (a "treaty") between a primary insurer or other reinsured and a reinsurer. Typically, in treaty reinsurance, the primary insurer or reinsured is obligated to offer and the reinsurer is obligated to accept a specified portion of all that type or category of risks originally written by the primary insurer or reinsured.
Umbrella coverage	A form of insurance protection against losses in excess of amounts covered by other liability insurance policies or amounts not covered by the usual liability policies.
Unassigned surplus	The undistributed and unappropriated amount of statutory capital and surplus.
Underlying combined ratio	The underlying combined ratio is the sum of the underlying loss and LAE ratio and the underlying underwriting expense ratio. The underlying combined ratio is an indicator of the Company's underwriting discipline and underwriting profitability for the current accident year.
Underlying loss and LAE ratio	The underlying loss and LAE ratio is the loss and LAE ratio, adjusted to exclude the impact of catastrophes and prior year reserve development. The underlying loss and LAE ratio is an indicator of the Company's underwriting discipline and underwriting profitability for the current accident year.
Underlying underwriting expense ratio	The underlying underwriting expense ratio is the underwriting expense ratio adjusted to exclude the impact of catastrophes.
Underlying underwriting margin	Net earned premiums and fee income less claims and claim adjustment expenses (excluding catastrophe losses and prior year reserve development) and insurance-related expenses.
Underwriter	An employee of an insurance company who examines, accepts or rejects risks and classifies accepted risks in order to charge an appropriate premium for each accepted risk. The underwriter is expected to select business that will produce an average risk of loss no greater than that anticipated for the class of business.
Underwriting	The insurer's or reinsurer's process of reviewing applications for insurance coverage, and the decision as to whether to accept all or part of the coverage and determination of the applicable premiums; also refers to the acceptance of that coverage.
Underwriting expense ratio	For SAP, the underwriting expense ratio is the ratio of underwriting expenses incurred (including commissions paid), less certain administrative services fee income and billing and policy fees, to net <i>written</i> premiums as defined in the statutory financial statements required by insurance regulators. The underwriting expense ratio as used in this report is the ratio of underwriting expenses (including the amortization of deferred acquisition costs), less certain administrative services fee income, billing and policy fees and other, to net <i>earned</i> premiums.

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	The underwriting expense ratio is an indicator of the Company's efficiency in acquiring and servicing its business.
	Other companies' method of computing a similarly titled measure may not be comparable to the Company's method of computing this ratio.
Underwriting gain or loss	Net earned premiums and fee income less claims and claim adjustment expenses and insurance-related expenses.
Unearned premium	The portion of premiums written that is allocable to the unexpired portion of the policy term.
Voluntary market	The market in which a person seeking insurance obtains coverage without the assistance of residual market mechanisms.
Wholesale broker	An independent or exclusive agent that represents both admitted and non-admitted insurers in market areas, which include standard, non-standard, specialty and excess and surplus lines of insurance. The wholesaler does not deal directly with the insurance consumer. The wholesaler deals with the retail agent or broker.
Workers' compensation	A system (established under state and federal laws) under which employers provide insurance for benefit payments to their employees for work-related injuries, deaths and diseases, regardless of fault.

Item 1A. RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this report, including without limitation our consolidated financial statements and the notes thereto and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates."

Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance. Our property and casualty insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various natural events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions and other naturally-occurring events, such as solar flares. Catastrophes can also be man-made, such as terrorist attacks and other intentionally destructive acts including those involving nuclear, biological, chemical or radiological events, cyber-attacks, explosions and infrastructure failures. The geographic distribution of our business subjects us to catastrophe exposures in the United States and Canada, which include, but are not limited to: hurricanes from Maine through Texas; tornadoes and hail storms throughout the Central, Mid-Atlantic and Southeastern regions of the United States; earthquakes in California, the New Madrid region and the Pacific Northwest region of North America; wildfires, particularly in western states and Canada; and terrorism in major cities in the United States. In addition to our operations in the United States and Canada, our international operations subject us to catastrophe exposures in the United Kingdom, the Republic of Ireland and Brazil as well as to a variety of world-wide catastrophe exposures through our Lloyd's operations.

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The incidence and severity of catastrophes are inherently unpredictable, and it is possible that both the frequency and severity of natural and man-made catastrophic events could increase. Severe weather events over the last two decades have underscored the unpredictability of future climate trends, and potentially changing climate conditions could add to the frequency and severity of natural disasters and create additional uncertainty as to future trends and exposures. For example, over the last two decades, hurricane activity has impacted areas further inland than previously experienced by us, and demographic changes have resulted in larger populations in coastal areas which historically have been subject to severe storms and related storm surge, thus expanding our potential for losses from hurricanes. Additionally, both the frequency and severity of tornado and hail storms in the United States have been more volatile during the last decade. Moreover, we could experience more than one severe catastrophic event in any given period.

All of the catastrophe modeling tools that we use, or that we rely on from outside parties, to evaluate certain of our catastrophe exposures are based on assumptions and judgments that are subject to error and mis-estimation and may produce estimates that are materially different than actual results. In addition, compared to models for hurricanes, models for earthquakes are less reliable due to there being a more limited number of significant historical events to analyze, while models for tornadoes and hail storms are newer and may be even less reliable due to the highly random geographic nature and size of these events. As a result, models for earthquakes and tornado and hail storms may have even greater difficulty predicting risks and estimating losses. Further, changes in climate conditions could cause our underlying modeling data to be less predictive, thus limiting our ability to effectively evaluate and manage catastrophe risk. As compared to natural catastrophes, modeling for man-made catastrophes, such as terrorism, is even more difficult and less reliable, and for some events, currently there are no reliable modeling techniques. See "We may be adversely affected if our pricing and capital models provide materially different indications than actual results" below as well as "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Catastrophe Modeling" and " Changing Climate Conditions."

The extent of losses from a catastrophe is a function of the total amount of insured exposure in the area affected by the event, the severity of the event and the coverage provided, which can be both property and casualty coverages. Increases in the value and geographic concentration of insured property, the number of policyholders exposed to certain events and the effects of inflation could increase the severity of claims from catastrophic events in the future. For example, the specific geographic location impacted by tornadoes is inherently random and unpredictable and the specific location impacted by a tornado may or may not be highly populated and may or may not have a high concentration of our insured exposures.

States have from time to time passed legislation, and regulators have taken action, that have the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from reducing exposures or withdrawing from catastrophe-prone areas or mandating that insurers participate in residual markets. Participation in residual market mechanisms has resulted in, and may continue to result in, significant losses or assessments to insurers, including us, and, in certain states, those losses or assessments may not be commensurate with our direct catastrophe exposure in those states. If our competitors leave those states having residual market mechanisms, remaining insurers, including us, may be subject to significant increases in losses or assessments following a catastrophe. In addition, following catastrophes, there are sometimes legislative and administrative initiatives and court decisions that seek to expand insurance coverage for catastrophe claims beyond the original intent of the policies or seek to prevent the application of deductibles. Also, our ability to adjust terms, including deductible levels, or to increase pricing to the extent necessary to offset rising costs of catastrophes, particularly in the Personal Insurance segment, requires approval of regulatory authorities of certain states. Our ability or our willingness to manage our catastrophe exposure by raising prices, modifying underwriting terms or reducing exposure to certain geographies may be limited

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due to considerations of public policy, the evolving political environment and/or changes in the general economic climate. We also may choose to write business in catastrophe-prone areas that we might not otherwise write for strategic purposes, such as improving our access to other underwriting opportunities.

There are also factors that impact the estimation of ultimate costs for catastrophes. For example, the estimation of claims and claim adjustment expense reserves related to hurricanes can be affected by the inability to access portions of the impacted areas, the complexity of factors contributing to the losses, the legal and regulatory uncertainties and the nature of the information available to establish the claims and claim adjustment expense reserves. Complex factors include, but are not limited to: determining whether damage was caused by flooding versus wind; evaluating general liability and pollution exposures; estimating additional living expenses; the impact of demand surge; infrastructure disruption; fraud; the effect of mold damage; business interruption costs; late reported claims; litigation; and reinsurance collectability. The timing of a catastrophe's occurrence, such as at or near the end of a reporting period, can also affect the information available to us in estimating claims and claim adjustment expense reserves for that reporting period. The estimates related to catastrophes are adjusted in subsequent periods as actual claims emerge and additional information becomes available.

Exposure to catastrophe losses or actual losses resulting from a catastrophe could adversely affect our financial strength and claims-paying ratings and could impair our ability to raise capital on acceptable terms or at all. Also, as a result of our exposure to catastrophe losses or actual losses following a catastrophe, rating agencies may further increase capital requirements, which may require us to raise capital to maintain our ratings. A ratings downgrade could hurt our ability to compete effectively or attract new business. In addition, catastrophic events could cause us to exhaust our available reinsurance limits and could adversely impact the cost and availability of reinsurance. Such events can also impact the credit of our reinsurers. For a discussion of our catastrophe reinsurance coverage, see "Item 1 Business Reinsurance Catastrophe Reinsurance." Catastrophic events could also adversely impact the credit of the issuers of securities, such as states or municipalities, in which we have invested.

In addition, coverage in our reinsurance program for terrorism is limited. Although the Terrorism Risk Insurance Program provides benefits in the event of certain acts of terrorism, those benefits are subject to a deductible and other limitations and the program is scheduled to expire on December 31, 2020. Under current provisions of this program, once our losses exceed 20% of our commercial property and casualty insurance premium for the preceding calendar year, the federal government will reimburse us for 83% of our losses attributable to certain acts of terrorism which exceed this deductible up to a total industry program cap of \$100 billion. Our estimated deductible under the program is \$2.45 billion for 2017. Over the remaining four-year life of the reauthorized program, the federal government reimbursement percentage will fall from 83% to 80%. In addition, because the interpretation of this law is untested, there is substantial uncertainty as to how it will be applied to specific circumstances. For example, application of the law to a specific event will depend upon whether the government has designated such event as a covered event. It is also possible that future legislation could change or eliminate the program, which could adversely affect our business by increasing our exposure to terrorism losses, or by lowering our business volume through efforts to avoid that exposure. For a further description of the Terrorism Risk Insurance Program, see note 5 of notes to the consolidated financial statements.

Because of the risks set forth above, catastrophes such as those caused by various natural or man-made events, such as a terrorist attack or other intentionally destructive acts, including those involving nuclear, biological, chemical or radiological events or cyber-attacks, could materially and adversely affect our results of operations, financial position and/or liquidity. Further, we may not have sufficient resources to respond to claims arising from a high frequency of high severity natural catastrophes and/or of man-made catastrophic events involving conventional means. In addition, while

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we seek to manage our exposure to man-made catastrophic events involving conventional means, we may not have sufficient resources to respond to claims arising out of one or more man-made catastrophic events involving "unconventional" means, such as nuclear, biological, chemical or radiological events.

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. Claims and claim adjustment expense reserves do not represent an exact calculation of liability, but instead represent management estimates of what the ultimate settlement and administration of claims will cost, generally utilizing actuarial expertise and projection techniques, at a given accounting date.

The process of estimating claims and claim adjustment expense reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as: changes in claims handling procedures; adverse changes in loss cost trends, including inflationary pressures and technology changes which may impact medical, auto and home repair costs; economic conditions including general and wage inflation; legal trends and legislative changes; and varying judgments and viewpoints of the individuals involved in the estimation process, among others. The impact of many of these items on ultimate costs for claims and claim adjustment expenses is difficult to estimate. Claims and claim adjustment expense reserve estimation difficulties also differ significantly by product line due to differences in claim complexity, the volume of claims, the potential severity of individual claims, the determination of occurrence date for a claim and reporting lags (the time between the occurrence of the policyholder event and when it is actually reported to the insurer).

It is possible that, among other things, past or future steps taken by the federal government to stimulate the U.S. economy, including tax reform and changes in international trade regulation, such as the potential for a destination-based, border-adjustable consumption tax system and/or tariffs, could lead to higher inflation than we had anticipated, which could in turn lead to an increase in our loss costs. The impact of inflation on loss costs could be more pronounced for those lines of business that are considered "long tail," such as general liability, as they require a relatively long period of time to finalize and settle claims for a given accident year. In addition, a significant portion of claims costs, including those in "long tail" lines of business, consists of medical costs. Changes in healthcare legislation could significantly impact the availability, cost and allocation of payments for medical services, and it is possible that, as a result, inflationary pressures in medical costs may increase or claim frequency and/or severity may otherwise be adversely impacted. The estimation of claims and claim adjustment expense reserves may also be more difficult during times of adverse or uncertain economic conditions due to unexpected changes in behavior of claimants and policyholders, including an increase in fraudulent reporting of exposures and/or losses, reduced maintenance of insured properties, increased frequency of small claims or delays in the reporting of claims. In addition, the estimation of claims and claim adjustment expense reserves may be influenced by other external factors, including continued intensive advertising by plaintiff attorneys.

We continually refine our claims and claim adjustment expense reserve estimates in a regular, ongoing process as historical loss experience develops, additional claims are reported and settled, and the legal, regulatory and economic environment evolves. Business judgment is applied throughout the process, including the application of various individual experiences and expertise to multiple sets of data and analyses. Different experts may choose different assumptions when faced with material uncertainty, based on their individual backgrounds, professional experiences and areas of focus. Hence, such experts may at times produce estimates materially different from each other. This risk may be exacerbated in the context of an acquisition. Experts providing input to the various estimates and underlying assumptions include actuaries, underwriters, claim personnel and lawyers, as well as other

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members of management. Therefore, management may have to consider varying individual viewpoints as part of its estimation of claims and claim adjustment expense reserves.

We attempt to consider all significant facts and circumstances known at the time claims and claim adjustment expense reserves are established or reviewed. Due to the inherent uncertainty underlying claims and claim adjustment expense reserve estimates, the final resolution of the estimated liability for claims and claim adjustment expenses will likely be higher or lower than the related claims and claim adjustment expense reserves at the reporting date. Therefore, actual paid losses in the future may yield a materially different amount than is currently reserved.

Because of the uncertainties set forth above, additional liabilities resulting from one insured event, or an accumulation of insured events, may exceed the current related reserves. In addition, our estimate of claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, could vary significantly from period to period, cannot now be reasonably estimated and could materially and adversely affect our results of operations and/or our financial position.

For a discussion of claims and claim adjustment expense reserves by product line, including examples of common factors that can affect required reserves, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Claims and Claim Adjustment Expense Reserves."

During or following a period of financial market disruption or an economic downturn, our business could be materially and adversely affected. Worldwide financial markets and economic conditions have, from time to time, experienced significant disruption or deterioration and likely will experience periods of disruption or deterioration in the future. If financial markets experience significant disruption or if economic conditions deteriorate, our results of operations, financial position and/or liquidity likely would be adversely impacted. For example, financial market disruptions and economic downturns have resulted in, among other things, reduced business volume, as well as heightened credit risk and reduced valuations for certain of our investments. An inflationary environment, as a result of government efforts to stabilize the economy after a disruption or otherwise, may also, as we discuss in risk factors above, adversely impact our loss costs and the valuation of our investment portfolio.

Financial market disruption or an economic downturn could be exacerbated by actual or potential economic and geopolitical instability in many regions of the world. This can impact our business even if we do not conduct business in the region subject to the instability. For example, due to globalization, instability in one region can spread to other regions where we do business. In Europe, uncertainty in recent years has included the increased potential for default by one or more European sovereign debt issuers, the potential partial or complete dissolution of the Eurozone and its common currency and the negative impact of such potential events on global financial institutions and capital markets generally. Actions or inactions of European governments, including the United Kingdom's expected withdrawal from the European Union, may impact these actual or perceived risks. In the United States, future actions or inactions of the United States government may also impact economic conditions. For example, the new U.S. administration may address issues related to the U.S. Federal budget and taxes, the national debt, international trade, the Affordable Care Act and regulation generally differently than the prior U.S. administration, all of which may contribute, positively or negatively, to economic conditions generally and create economic uncertainty.

Several of the risk factors discussed above and below identify risks that could result from, or be exacerbated by, financial market disruption, an economic slowdown or economic uncertainty. These include risks discussed above related to our estimates of claims and claim adjustment expense reserves, and those discussed below related to our investment portfolio, the competitive environment, emerging claim and coverage issues, reinsurance arrangements, other credit exposures, regulatory developments

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and the impact of rating agency actions. You should also refer to "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations," particularly the "Outlook" section, for additional information about these risks and the potential impact on our business.

Our investment portfolio is subject to credit and interest rate risk, and may suffer reduced returns or material realized or unrealized losses. Investment returns are an important part of our overall profitability. Fixed maturity and short-term investments comprised approximately 93% of the carrying value of our investment portfolio as of December 31, 2016. Changes in interest rates caused by inflation or other factors (inclusive of credit spreads) affect the carrying value of our fixed maturity investments and returns on our fixed maturity and short-term investments. A decline in interest rates reduces the returns available on short-term investments and new fixed maturity investments (including those purchased to re-invest maturities from the existing portfolio), thereby negatively impacting our net investment income, while rising interest rates reduce the market value of existing fixed maturity investments, thereby negatively impacting our book value. During 2016, the net pre-tax unrealized gain in our fixed income portfolio decreased from \$1.78 billion to \$865 million as interest rates increased. Any future increases in interest rates (inclusive of credit spreads) would result in a further decline in that unrealized gain position or in an unrealized loss, thereby adversely impacting our book value. Interest rates in recent years have been and remain at very low levels relative to historical experience, and it is possible that rates may remain at low levels for a prolonged period. The value of our fixed maturity and short-term investments is also subject to the risk that certain investments may default or become impaired due to a deterioration in the financial condition of one or more issuers of the securities held in our portfolio, or due to a deterioration in the financial condition of an insurer that guarantees an issuer's payments of such investments. Such defaults and impairments could reduce our net investment income and result in realized investment losses. During an economic downturn, fixed maturity and short-term investments could be subject to a higher risk of default. Rapid changes in commodity prices, such as a significant decline in oil prices, could also subject certain of our investments to a higher risk of default.

Our fixed maturity investment portfolio is invested, in substantial part, in obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). Notwithstanding the relatively low historical rates of default on many of these obligations and notwithstanding that we typically seek to invest in high-credit-quality securities (including those with structural protections such as being secured by dedicated or pledged sources of revenue), our municipal bond portfolio could be subject to default or impairment. In particular:

In recent years, many state and local governments have been operating under deficits or projected deficits. The severity and duration of these deficits could have an adverse impact on the collectability and valuation of our municipal bond portfolio. These deficits may be exacerbated by the impact of unfunded pension plan obligations and other postretirement obligations or by declining municipal tax bases and revenues in times of financial stress.

Some issuers may be unwilling to increase tax rates, or to reduce spending, to fund interest or principal payments on their municipal bonds, or may be unable to access the municipal bond market to fund such payments. The risk of widespread defaults may increase if some issuers voluntarily choose to default, instead of implementing difficult fiscal measures, and the actual or perceived consequences (such as reduced access to capital markets) are less severe than expected.

The risk of widespread defaults may also increase if there are changes in legislation that permit states, municipalities and political subdivisions to file for bankruptcy protection where they were not permitted before. In addition, the collectability and valuation of municipal bonds may be adversely affected if there are judicial interpretations in a bankruptcy or other proceeding that lessen the value of structural protections. For example, debtors may challenge the effectiveness

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of structural protections thought to be provided by municipal securities backed by a dedicated source of revenue. The collectability and valuation may also be adversely affected if there are judicial interpretations in a bankruptcy or other proceeding that question the payment priority of municipal bonds.

Approximately 30% of the fixed maturity portfolio is expected to mature over the next three years (this includes the early redemption of bonds, assuming interest rates (including credit spreads) do not rise significantly by applicable call dates). For a schedule of the contractual maturities of our fixed maturity portfolio by year for the next several years, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Investment Portfolio." Of that maturing portfolio, a substantial amount includes municipal bonds that have been pre-refunded with U.S. treasury securities. As a result, even if our investment strategy does not significantly change over the next few years, the overall yield on and composition of our portfolio could be meaningfully impacted by the types of investments available for reinvestment with the proceeds of matured bonds. For example, if yields remain low when we reinvest such proceeds, our future net investment income would be adversely affected. In addition, depending on the specific bonds available for purchase at the time of re-investment, the mix of specific issuers in our fixed-income and municipal bond portfolio will change.

Our portfolio has benefited from tax exemptions (such as 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 our 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" below.

Our investment portfolio includes: residential mortgage-backed securities; collateralized mortgage obligations; pass-through securities and asset-backed securities collateralized by sub-prime mortgages; commercial mortgage-backed securities; and wholly-owned real estate and real estate partnerships, all of which could be adversely impacted by declines in real estate valuations and/or financial market disruption.

We also invest a portion of our assets in equity securities, private equity limited partnerships, hedge funds and real estate partnerships. From time to time, we may also invest in other types of non-fixed maturity investments, including investments with exposure to commodity price risk, such as oil. All of these asset classes are subject to greater volatility in their investment returns than fixed maturity investments. General economic conditions, changes in applicable tax laws and many other factors beyond our control can adversely affect the value of our non-fixed maturity investments and the realization of net investment income, and/or result in realized investment losses. As a result of these factors, we may realize reduced returns on these investments, incur losses on sales of these investments and be required to write down the value of these investments, which could reduce our net investment income and result in realized investment losses. 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, which can result in realized investment losses.

Our investment portfolio is also subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the portion of the investment portfolio that is carried at fair value as reflected in our financial statements is not reflective of prices at which actual transactions could occur.

Given that economic and market conditions have been and could be highly uncertain, we may, depending on circumstances in the future, make changes to the mix of investments in our investment portfolio. These changes may impact the duration, volatility and risk of our investment portfolio.

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Because of the risks set forth above, the value of our investment portfolio could decrease, we could experience reduced net investment income and we could experience realized and/or unrealized investment losses, which could materially and adversely affect our results of operations, financial position and/or liquidity.

Our business could be harmed because of our potential exposure to asbestos and environmental claims and related litigation. With regard to asbestos claims, we have received and continue to receive a significant number of asbestos claims from policyholders (including others seeking coverage under a policy). Factors underlying these claim filings include continued intensive advertising by lawyers seeking asbestos claimants and the continued 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. This trend of prioritizing claims involving credible evidence of injuries, along with the focus on defendants who were not traditionally primary targets of asbestos litigation, has contributed to the claims and claim adjustment expense payments we experienced.

We also continue to be involved in coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage. In these instances, policyholders also may assert that each individual bodily injury claim should be treated as a separate occurrence under the policy. It is difficult to predict whether these policyholders will be successful on both issues. To the extent both issues are resolved in a policyholder's favor and our other defenses are not successful, our coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per-occurrence limits and the number of asbestos bodily injury claims against the policyholders. Although we have seen a moderation in the overall risk associated with these lawsuits, it remains difficult to predict the ultimate cost of these claims.

Further, in addition to claims against policyholders, proceedings have been launched directly against insurers, including us, 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 us, could be made in the future. It is difficult to predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability.

With regard to environmental claims, we have received and continue to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. Mostly, these claims arise under various legislative as well as regulatory efforts aimed at environmental remediation. For instance, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), enacted in 1980 and later modified, enables private parties as well as federal and state governments to take action with respect to releases and threatened releases of hazardous substances. This federal statute permits the recovery of response costs from some liable parties and may require liable parties to undertake their own remedial action. Liability under CERCLA and similar state laws may be imposed on certain parties even if they did not cause the release or threatened release of hazardous substances and may be joint and several with other responsible parties.

The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to asbestos and environmental claims. The Company believes that some court

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decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions continue to be inconsistent and vary from jurisdiction to jurisdiction.

Uncertainties surrounding the final resolution of these asbestos and environmental claims continue, and it is difficult to estimate our ultimate liability for such claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. The continuing uncertainties include, without limitation:

the risks and lack of predictability inherent in complex litigation;

a further increase in the cost to resolve, and/or the number of, asbestos and environmental claims beyond that which is anticipated;

the emergence of a greater number of asbestos claims than anticipated as a result of extended life expectancies resulting from medical advances and lifestyle improvements;

the role of any umbrella or excess policies we have issued;

the resolution or adjudication of disputes concerning coverage for asbestos and environmental claims in a manner inconsistent with our previous assessment of these disputes;

the number and outcome of direct actions against us;

future developments pertaining to our ability to recover reinsurance for asbestos and environmental claims;

any impact on asbestos defendants we insure due to the bankruptcy of other asbestos defendants;

the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers; and

uncertainties arising from the insolvency or bankruptcy of policyholders.

It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development of asbestos and environmental claims. This environment could be affected by 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. 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.

While the ongoing evaluation 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, 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 materially and adversely affect our results of operations. See the "Asbestos Claims and Litigation" and "Environmental Claims and Litigation" sections of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations." Also see "Item 3 Legal Proceedings."

The intense competition that we face, and the impact of innovation, technological change and changing customer preferences on the insurance industry and the markets in which we operate, could harm our ability to maintain or increase our business volumes and our profitability. The property and casualty insurance industry is highly competitive, and we believe that it will remain highly competitive for the foreseeable future. We compete with both domestic and foreign insurers which may

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offer products at prices and on terms that are not consistent with our economic standards in an effort to maintain or increase their business. The competitive environment in which we operate could also be impacted by current general economic conditions, which could reduce the volume of business available to us as well as to our competitors. In recent years, pension and hedge funds and other entities with substantial available capital and potentially lower return objectives have increasingly sought to participate in the property and casualty insurance and reinsurance businesses. Well-capitalized new entrants to the property and casualty insurance and reinsurance industries, existing competitors that receive substantial infusions of capital, as well as competitors that can take advantage of more favorable tax domiciles than the United States, may conduct business in ways that adversely impact our business volumes and profitability. Further, an expanded supply of reinsurance capital may lower costs for insurers that rely significantly on reinsurance and, as a consequence, those insurers may be able to price their products more competitively. In addition, the competitive environment could be impacted by changes in customer preferences, including customer demand for direct distribution channels, not only in personal lines (where we currently and may increasingly compete against direct writers), but also in commercial lines (where direct writers may become a more significant source of competition in the future, particularly in the small commercial market). Consolidation within the insurance industry also could alter the competitive environment in which we operate, which may impact our business volumes and/or the rates or terms of our products.

In Personal Insurance, the use of comparative rating technologies has impacted, and may continue to impact, our business as well as the industry as a whole. A substantial amount of the Company's Personal Insurance new business is written after an agent compares quotes using comparative rating technologies, a cost-efficient means of obtaining quotes from multiple companies. Because the use of this technology, whether by agents or directly by customers, facilitates the process of generating multiple quotes, the technology has increased price comparison on new business and, increasingly, on renewal business. It also has resulted in an increase in the level of quote activity and a lower percentage of quotes that result in new business from customers, and these trends may continue or accelerate. If we are not able to operate with a competitive cost structure or accurately estimate and price for claims and claim adjustment expenses, our business volume and underwriting margins could be adversely affected over time. Additionally, similar technology is starting to be used to access comparative rates for small commercial business and that trend may continue or accelerate.

Technology companies or other third parties have created, and may in the future create, digitally-enabled alternate distribution channels for personal or commercial business that may adversely impact our competitive position. These alternative distribution channels may compete with us directly by providing, or arranging to provide, insurance coverage themselves. See also "Disruptions to our relationships with our independent agents and brokers could adversely affect us" below.

Other technological changes may present competitive risks. For example, innovations, such as telematics and other usage-based methods of determining premiums, can impact product design and pricing and may become an increasingly important competitive factor. In addition, our competitive position could be impacted if we are unable to deploy, in a cost effective manner, technology that collects and analyzes a wide variety of data points (so-called "big data" analysis) to make underwriting or other decisions, or if our competitors collect and use data which we do not have the ability to access or use. See also "Our business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology" below.

Competitive dynamics may impact the success of efforts to improve our underwriting margins on our insurance products. These efforts could include seeking improved rates, as well as improved terms and conditions, and could also include other initiatives, such as reducing operating expenses and acquisition costs. These efforts may not be successful and/or may result in lower retention and new business levels and therefore lower business volumes. In addition, if our underwriting is not effective, further efforts to increase rates could also lead to "adverse selection", whereby accounts retained have higher losses, and are less profitable, than accounts lost. For more detail, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Outlook."

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Similar to other industries, the insurance industry is undergoing rapid and significant technological and other change. Traditional insurance industry participants, technology companies, "InsurTech" start-up companies, the number of which has increased significantly in recent years, and others are focused on using technology and innovation to simplify and improve the customer experience, increase efficiencies, redesign products, alter business models and effect other potentially disruptive changes in the insurance industry. If we do not anticipate, keep pace with and adapt to technological and other changes impacting the insurance industry, it could harm our ability to compete, decrease the value of our products to customers, and materially and adversely affect our business. Furthermore, innovation, technological change and changing customer preferences in the markets in which we operate also pose risks to our business. For example, technologies such as driverless vehicles, assisted-driving technologies, technologies that facilitate ride or home sharing, smart homes or automation could reduce the demand for certain of our products, create coverage issues or impact the frequency or severity of losses, and we may not be able to respond effectively.

Overall, our competitive position in our various businesses is based on many factors, including but not limited to our:

ability to profitably price our business, retain existing customers and obtain new business;

premiums charged, contract terms and conditions, products and services offered (including the ability to design customized programs);

agent, broker and policyholder relationships;

ability to keep pace relative to our competitors with changes in technology and information systems;

speed of claims payment;

ability to provide our products and services in a cost effective manner;

ability to adapt to changes in business models, technology, customer preferences or regulation impacting the markets in which we operate;

perceived overall financial strength and corresponding ratings assigned by independent rating agencies;

reputation, experience and qualifications of employees;

geographic scope of business; and

local presence.

We may have difficulty in continuing to compete successfully on any of these bases in the future. If competition or technological or other changes to the markets in which we operate limit our ability to retain existing business or write new business at adequate rates or on appropriate terms, our results of operations could be materially and adversely affected. See "Competition" sections of the discussion on business segments in "Item 1 Business."

Disruptions to our relationships with our independent agents and brokers could adversely affect us. We market our insurance products primarily through independent agents and brokers. An important part of our business is written through less than a dozen such intermediaries. Further, there has been a trend of increased consolidation by agents and brokers, which could impact our relationships with, and fees paid to, some agents and brokers, and/or otherwise negatively impact the pricing or distribution of our products. Agents and brokers may increasingly compete with us to the extent that markets increasingly provide them with direct access to providers of capital seeking exposure to

insurance risk. See also "The intense competition that we face could harm our ability to maintain or increase our business volumes and our profitability." In all of the foregoing situations, loss

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of all or a substantial portion of the business provided through such agents and brokers could materially and adversely affect our future business volume and results of operations.

We may also seek to develop new products or distribution channels, which could disrupt our relationships with our agents and brokers. In addition, agents and brokers may create alternate distribution channels for commercial business that may adversely impact product differentiation and pricing. Access to greater levels of data and increased utilization of technology by agents and brokers may also impact our relationship with them and our competitive position. In certain markets, brokers increasingly have been packaging portfolios of risks together and offering them to a narrower range of carriers as well as, in some cases, requesting a commitment to participate in such portfolios in advance. Our efforts or their efforts with respect to new products or alternate distribution channels, as well as changes in the way agents and brokers utilize data and technology, could adversely impact our business relationship with independent agents and brokers who currently market our products, resulting in a lower volume and/or profitability of business generated from these sources.

We rely on internet applications for the marketing and sale of certain of our products, and we may increasingly rely on internet applications and toll-free numbers for distribution. In some instances, our agents and brokers are required to access separate business platforms to execute the sale of our personal insurance or commercial insurance products. Should internet disruptions occur, or frustration with our business platforms or distribution initiatives develop among our independent agents and brokers, any resulting loss of business could materially and adversely affect our future business volume and results of operations. See "If we experience difficulties with technology, data security and/or outsourcing relationships, our ability to conduct our business could be negatively impacted" below.

Customers in the past have brought claims against us for the actions of our agents. Even with proper controls in place, actual or alleged errors or inaccuracies by our agents could result in our involvement in disputes, litigation or regulatory actions related to actions taken or not taken by our agents.

We are exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances. In addition to asbestos and environmental claims, we face exposure to other types of mass tort claims, including claims related to exposure to potentially harmful products or substances, such as lead paint, silica and welding rod fumes. Establishing claims and claim adjustment expense reserves for mass tort claims is subject to uncertainties because of many factors, including expanded theories of liability, disputes concerning medical causation with respect to certain diseases, geographical concentration of the lawsuits asserting the claims and the potential for a large rise in the total number of claims without underlying epidemiological developments suggesting an increase in disease rates. Moreover, evolving judicial interpretations regarding the application of various tort theories and defenses, including application of various theories of joint and several liabilities, as well as the application of insurance coverage to these claims, make it difficult to estimate our ultimate liability for such claims.

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the current related reserves. In addition, our estimate of claims and claim adjustment expenses may change, and such change could be material. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could materially and adversely affect our results of operations.

The effects of emerging claim and coverage issues on our business are uncertain. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage may emerge. These issues may adversely affect our business, including by extending coverage beyond our underwriting intent, by increasing the number,

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size or types of claims or by mandating changes to our underwriting practices. Examples of emerging claims and coverage issues include, but are not limited to:

judicial expansion of policy coverage and the impact of new or expanded theories of liability;

plaintiffs targeting property and casualty insurers, including us, in purported class action litigation relating to claims-handling and other practices;

claims relating to construction defects, which often present complex coverage and damage valuation questions;

claims under directors' & officers' insurance policies relating to losses from involvement in financial market activities, such as mortgage or financial product origination, distribution, structuring or servicing and foreclosure procedures; failed financial institutions; fraud; improper sales practices; possible accounting irregularities; and corporate governance issues;

claims related to data and network security breaches, information system failures or cyber-attacks, including cases where coverage was not intended to be provided;

the assertion of "public nuisance" or similar theories of liability, pursuant to which plaintiffs seek to recover monies spent to administer public health care programs, abate hazards to public health and safety and/or recover damages purportedly attributable to a "public nuisance";

claims related to liability or workers' compensation arising out of the spread of infectious disease or pandemic;

claims relating to abuse by an employee or a volunteer of an insured;

claims that link health issues to particular causes (for example, cumulative traumatic head injury from sports or other causes), resulting in liability or workers' compensation claims;

claims alleging that one or more of our underwriting criteria have a disparate impact on persons belonging to a protected class in violation of the law, including the Fair Housing Act;

claims arising out of modern techniques and practices used in connection with the extraction of natural resources, such as hydraulic fracturing or wastewater injection;

claims arising out of the use of personal cars, homes or other property in commercial transactions, such as ride or home sharing;

claims relating to unanticipated consequences of current or new technologies or business models or processes, including as a result of related behavioral changes; and

claims relating to potentially changing climate conditions, including higher frequency and severity of weather-related events.

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In some instances, these emerging issues may not become apparent for some time after we have issued the affected insurance policies. As a result, the full extent of liability under our insurance policies may not be known for many years after the policies are issued.

In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to deem by statute the existence of a covered occurrence, to extend the statutes of limitations or otherwise to repeal or weaken tort reforms could have an adverse impact on our business.

The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could harm our business and materially and adversely affect our results of operations.

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We may not be able to collect all amounts due to us from reinsurers, reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all and we are exposed to credit risk related to our structured settlements. Although the reinsurer is liable to us to the extent of the ceded reinsurance, we remain liable as the direct insurer on all risks reinsured. As a result, ceded reinsurance arrangements do not eliminate our obligation to pay claims. Accordingly, we are subject to credit risk with respect to our ability to recover amounts due from reinsurers.

In the past, certain reinsurers have ceased writing business and entered into runoff. Some of our reinsurance claims may be disputed by the reinsurers, and we may ultimately receive partial or no payment. This is a particular risk in the case of claims that relate to insurance policies written many years ago, including those relating to asbestos and environmental claims. In addition, in a number of jurisdictions, particularly the European Union and the United Kingdom, a reinsurer is permitted to transfer a reinsurance arrangement to another reinsurer, which may be less creditworthy, without a counterparty's consent, provided that the transfer has been approved by the applicable regulatory and/or court authority.

Included in reinsurance recoverables are amounts related to certain structured settlements. Structured settlements are annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where we did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables and the related claim cost is included in the liability for claims and claim adjustment expense reserves, as we retain the contingent liability to the claimant. Some of the life insurance companies from which we have purchased structured settlements have been downgraded to below investment grade credit ratings subsequent to the time of the purchase. If it is expected that the life insurance company is not able to pay, we would recognize an impairment of the related reinsurance recoverable if, and to the extent, the purchased annuities are not covered by state guaranty associations. In the event that the life insurance company fails to make the required annuity payments, we would be required to make such payments. For a discussion of our top reinsurance groups by reinsurance recoverable and the top five groups by amount of structured settlements provided, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Reinsurance Recoverables."

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity. The availability of reinsurance capacity can be impacted by general economic conditions and conditions in the reinsurance market, such as the occurrence of significant reinsured events. The availability and cost of reinsurance could affect our business volume and profitability. In addition, certain countries, particularly in Europe, recently have been pressuring the U.S. to reduce its regulatory requirements for U.S. ceding companies to obtain collateral from reinsurers located outside the United States which, if successful, could make it more difficult for U.S. companies, including us, to obtain sufficient collateral, if any, in such reinsurance arrangements.

Because of the risks set forth above, we may not be able to collect all amounts due to us from reinsurers, and reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all, and/or life insurance companies may fail to make required annuity payments, and thus our results of operations could be materially and adversely affected.

We are also exposed to credit risk in certain of our insurance operations and with respect to certain guarantee or indemnification arrangements that we have with third parties. In addition to exposure to credit risk related to our investment portfolio and reinsurance recoverables (discussed above), we are exposed to credit risk in several other areas of our business operations, including credit risk relating to policyholders, independent agents and brokers.

We are exposed to credit risk in our surety insurance operations, where we guarantee to a third party that our customer will satisfy certain performance obligations (e.g., a construction contract) or

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certain financial obligations, including exposure to large customers who may have obligations to multiple third parties. If our customer defaults, we may suffer losses and not be reimbursed by that customer. In addition, it is customary practice in the surety business for multiple insurers to participate as co-sureties on large surety bonds. Under these arrangements, the co-surety obligations are typically joint and several, in which case we are also exposed to credit risk with respect to our co-sureties.

In addition, a portion of our business is written with large deductible insurance policies. Under casualty insurance contracts with deductible features, we are obligated to pay the claimant the full amount of the settled claim. We are subsequently reimbursed by the contractholder for the deductible amount, and, as a result, we are exposed to credit risk to the policyholder. Moreover, certain policyholders purchase retrospectively rated workers' compensation and/or general liability policies (i.e., policies in which premiums are adjusted after the policy period based on the actual loss experience of the policyholder during the policy period). Retrospectively rated policies expose us to additional credit risk to the extent that the adjusted premium is greater than the original premium.

Our efforts to mitigate the credit risk that we have to our insureds may not be successful. To reduce such credit risk, we require certain insureds to post collateral for some or all of these obligations, often in the form of pledged securities such as money market funds or letters of credit provided by banks, surety bonds or cash. In cases where we receive pledged securities and the insureds are unable to honor their obligations, we may be exposed to credit risk on the securities pledged and/or the risk that our access to that collateral may be stayed during an insured's bankruptcy. In cases where we receive letters of credit from banks and the insureds are unable to honor their obligations, we are exposed to the credit risk of the banks that issued the letters of credit.

In accordance with industry practice, when policyholders purchase insurance policies from us through independent agents and brokers, the premiums relating to those policies are often paid to the agents and brokers for payment to us. In most jurisdictions, the premiums will be deemed to have been paid to us whether or not they are actually received by us. Consequently, we assume a degree of credit risk associated with amounts due from independent agents and brokers.

To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk in an economic downturn. While we attempt to manage the risks discussed above through underwriting guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. For example, collateral obtained may subsequently have little or no value. Further, the amount of collateral protection we have been able to obtain on the business we write in certain markets has decreased, and may continue to decrease, as a result of competition. We are also exposed to credit risk related to certain guarantee or indemnification arrangements that we have with third parties. See note 16 of notes to the consolidated financial statements. As a result, our exposure to the above credit risks could materially and adversely affect our results of operations.

Within the United States, our businesses are heavily regulated by the states in which we conduct business, including licensing and supervision, and changes in regulation may reduce our profitability and limit our growth. These regulatory systems are generally designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders and other investors. For example, to protect policyholders whose insurance company becomes financially insolvent, guaranty funds have been established in all 50 states to pay the covered claims of policyholders in the event of an insolvency of an insurer, subject to applicable state limits. The funding of guaranty funds is provided through assessments levied against remaining insurers in the marketplace. As a result, the insolvency of one or more insurance companies could result in additional assessments levied against us. In addition, several states restrict the timing and/or the ability of an insurer to discontinue writing a line of business or to cancel or non-renew certain policies.

These regulatory systems also address authorization for lines of business, statutory capital and surplus requirements, limitations on the types and amounts of certain investments, underwriting

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limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurer's business including, most recently, cyber-security.

The state insurance regulatory framework has been under continuing scrutiny, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators continually re-examine existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws and regulations.

As part of these changes, insurance holding company regulations were amended to require insurers who are part of a holding company system to file an enterprise risk report to provide the lead insurance regulator with a summary of the company's Enterprise Risk Management (ERM) framework including the material risks within the insurance holding company system that could pose risk to the insurance entities within the holding company system. Insurers having premium volume above certain thresholds, including the Company, are also required to perform at least annually a self-assessment of their current and future risks, including their likely future solvency position (known as an own risk and solvency assessment or ORSA) and file a confidential report with the insurer's lead insurance regulator. The requirement for an insurer to conduct an ORSA is intended to foster an effective level of ERM at all insurers within a holding company system, and to provide a group-wide perspective on risk and capital as a supplement to the legal entity view. ORSA is now included in the International Association of Insurance Supervisors (IAIS) standards and is in various stages of implementation in the United States, Europe, Canada, and other jurisdictions. It is possible that, as a result of ORSA and the manner in which it may be used by insurance regulators, our states of domicile or other regulatory bodies may require changes in our ERM process (e.g., prescribe the use of specific models or the application of certain assumptions in the Company's models) that have the effect of limiting our ability to write certain risks, limit our risk appetite to write additional business or reduce our capital management flexibility. See "Enterprise Risk Management" for further discussion of the Company's ERM.

The NAIC and state insurance regulators, as well as the Federal Reserve and Federal Insurance Office, are currently working with the IAIS to develop a global common framework (ComFrame) for the supervision of internationally active insurance groups (IAIGs). If adopted, ComFrame would require the designation of a group-wide supervisor (regulator) for each IAIG and would impose a group capital requirement that would be applied to an IAIG in addition to the current legal entity capital requirements imposed by state insurance regulators. In response to ComFrame, the NAIC developed a model law that allows state insurance regulators in the U.S. to be designated as group-wide supervisors for U.S. based IAIGs. Additionally, the NAIC is developing a group capital analytical tool that would be applied to U.S. based insurance groups in addition to the risk-based capital (RBC) requirement that is applied on a legal entity basis. These regulatory developments could increase the amount of capital that the Company is required to have and could result in the Company being subject to increased regulatory requirements.

Regulators may choose to adopt more restrictive insurance laws and regulations that could, among other things, restrict the ability of insurance subsidiaries to distribute funds to their parent companies or they could reject rate increases due to the economic environment. The state insurance regulators may also increase the statutory capital and surplus requirements for our insurance subsidiaries. In addition, state tax laws that specifically impact the insurance industry, such as premium taxes or other taxes, could be enacted or changed by states to raise revenues.

State laws or regulations that are adopted or amended may be more restrictive than current laws or regulations and may result in lower revenues and/or higher costs of compliance and thus could materially and adversely affect our results of operations and limit our growth.

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A downgrade in our claims-paying and financial strength ratings could adversely impact our business volumes, adversely impact our ability to access the capital markets and increase our borrowing costs. Claims-paying and financial strength ratings are important to an insurer's competitive position. Rating agencies periodically review insurers' ratings and change their ratings criteria; therefore, our current ratings may not be maintained in the future. A downgrade in one or more of our ratings could negatively impact our business volumes because demand for certain of our products may be reduced, particularly because many customers may require that we maintain minimum ratings to enter into, maintain or renew business with us. Additionally, we may find it more difficult to access the capital markets and we may incur higher borrowing costs. If significant losses, including, but not limited to, those resulting from one or more major catastrophes, or significant reserve additions or significant investment losses were to cause our capital position to deteriorate significantly, or if one or more rating agencies substantially increase their capital requirements, we may need to raise equity capital in the future (which we may not be able to do at a reasonable cost or at all, especially at a time of financial market disruption) in order to maintain our ratings or limit the extent of a downgrade. A continued trend of more frequent and severe weather-related catastrophes or a prolonged financial market disruption or economic downturn may lead rating agencies to substantially increase their capital requirements. See also "During or following a period of financial market disruption or economic downturn, our business could be materially and adversely affected." For further discussion about our ratings, see "Item 1 Business Ratings."

The inability of our insurance subsidiaries to pay dividends to our holding company in sufficient amounts would harm our ability to meet our obligations, pay future shareholder dividends or make future share repurchases. Our holding company relies on dividends from our U.S. insurance subsidiaries to meet our obligations for payment of interest and principal on outstanding debt, to pay dividends to shareholders, to make contributions to our qualified domestic pension plan, to pay other corporate expenses and to make share repurchases. The ability of our insurance subsidiaries to pay dividends to our holding company in the future will depend on their statutory capital and surplus, earnings and regulatory restrictions.

We are subject to state insurance regulation as an insurance holding company system. Our U.S. insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of insurance regulatory authorities. In a time of prolonged economic downturn or otherwise, insurance regulators may choose to further restrict the ability of insurance subsidiaries to make payments to their parent companies. The ability of our insurance subsidiaries to pay dividends to our holding company is also restricted by regulations that set standards of solvency that must be met and maintained.

The inability of our insurance subsidiaries to pay dividends to our holding company in an amount sufficient to meet our debt service obligations and other cash requirements could harm our ability to meet our obligations, to pay future shareholder dividends and to make share repurchases.

Our efforts to develop new products or expand in targeted markets may not be successful and may create enhanced risks. A number of our recent and planned business initiatives involve developing new products or expanding existing products in targeted markets. This includes the following efforts, from time to time, to protect or grow market share:

We may develop products that insure risks we have not previously insured, contain new coverage or coverage terms or contain different commission terms.

We may refine our underwriting processes.

We may seek to expand distribution channels.

We may focus on geographic markets within or outside of the United States where we have had relatively little or no market share.

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We may not be successful in introducing new products or expanding in targeted markets and, even if we are successful, these efforts may create enhanced risks. Among other risks:

Demand for new products or in new markets may not meet our expectations.

To the extent we are able to market new products or expand in new markets, our risk exposures may change, and the data and models we use to manage such exposures may not be as sophisticated or effective as those we use in existing markets or with existing products. This, in turn, could lead to losses in excess of our expectations.

Models underlying automated underwriting and pricing decisions may not be effective.

Efforts to develop new products or markets have the potential to create or increase distribution channel conflict, such as described above under " Disruptions to our relationships with our independent agents and brokers could adversely affect us."

In connection with the conversion of existing policyholders to a new product, some policyholders' pricing may increase, while the pricing for other policyholders may decrease, the net impact of which could negatively impact retention and profit margins.

To develop new products or markets, we may need to make substantial capital and operating expenditures, which may also negatively impact results in the near term.

If our efforts to develop new products or expand in targeted markets are not successful, our results of operations could be materially and adversely affected.

We may be adversely affected if our pricing and capital models provide materially different indications than actual results. The profitability of our property and casualty business substantially depends on the extent to which our actual claims experience is consistent with the assumptions we use in pricing our policies. We utilize proprietary and third party models to help us price business in a manner that is intended to be consistent, over time, with actual results and return objectives. We incorporate the Company's historical loss experience, external industry data and economic indices into our modeling processes, and we use various methods, including predictive modeling, forecasting and sophisticated simulation modeling techniques, to analyze loss trends and the risks associated with our assets and liabilities. We also use these modeling processes, analyses and methods in making underwriting, pricing and reinsurance decisions as part of managing our exposure to catastrophes and other extreme adverse events. These modeling processes incorporate numerous assumptions and forecasts about the future level and variability of: frequency and severity of losses, inflation, interest rates and capital requirements, among others, that are difficult to make and may differ materially from actual results.

Whether we use a proprietary or third party model, future experience may be materially different from past and current experience incorporated in a model's forecasts or simulations. This includes the likelihood of events occurring or continuing or the correlation among events. Third party models may provide substantially different indications than what our proprietary modeling processes provide. As a result, third party model estimates of losses can be, and often have been, materially different for similar events in comparison to our proprietary estimates. The differences between third party model estimates and our proprietary estimates are driven by the use of different data sets as well as different assumptions and forecasts regarding the frequency and severity of events and claims arising from the events.

If we fail to appropriately price the risks we insure, or fail to change our pricing models to appropriately reflect our current experience, or if our claims experience is more frequent or severe than our underlying risk assumptions, our profit margins may be negatively affected. If we underestimate the frequency and/or severity of extreme adverse events occurring, our financial condition may be adversely affected. If we overestimate the risks we are exposed to, we may overprice our products, and new

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business growth and retention of our existing business may be adversely affected. As we expand into different markets and geographies, we will write more policies in markets and geographical areas where we have less data specific to these new markets and geographies, and, accordingly, we may be more susceptible to error in our models and strategy. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Catastrophe Modeling."

Our business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology. We depend in large part on our technology systems for conducting business and processing claims, as well as for providing the data and analytics we utilize to manage our business, and thus our business success is dependent on maintaining the effectiveness of existing technology systems and on continuing to develop and enhance technology systems that support our business processes and strategic initiatives in a cost and resource efficient manner. Some system development projects are long-term in nature, may negatively impact our expense ratios as we invest in the projects and may cost more than we expect to complete. In addition, system development projects may not deliver the benefits or perform as expected, or may be replaced or become obsolete more quickly than expected, which could result in operational difficulties, additional costs or accelerated recognition of expenses. If we do not effectively and efficiently manage and upgrade our technology portfolio, or if the costs of doing so are higher than we expect, our ability to provide competitive services to, and conduct business with, new and existing customers in a cost effective manner and our ability to implement our strategic initiatives could be adversely impacted.

If we experience difficulties with technology, data and network security (including as a result of cyber attacks), outsourcing relationships, or cloud-based technology, our ability to conduct our business could be negatively impacted. While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present significant risks. Our business is highly dependent upon our employees' ability to perform, in an efficient and uninterrupted fashion, necessary business functions. A shut-down of, or inability to access, one or more of our facilities (including our primary data processing facility); a power outage; or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis, particularly if such an interruption lasts for an extended period of time. In the event of a computer virus or disaster such as a natural catastrophe, terrorist attack or industrial accident, our systems could be inaccessible for an extended period of time. In addition, because our information technology and telecommunications systems increasingly interface with and depend on third-party systems, including cloud-based, we could experience service denials or failures of controls if demand for our service exceeds capacity or a third-party system fails or experiences an interruption. Business interruptions and failures of controls could also result if our internal systems do not interface with each other as intended. Business continuity can also be disrupted by an event, such as a pandemic, that renders large numbers of a workforce unable to work as needed, particularly at critical locations; for example, our largest location employs about 20% of our employees. If our business continuity plans did not sufficiently address a business interruption, system failure or service denial, this could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Our operations rely on the reliable and secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers (including individuals, organizations or rogue states) and employee or vendor misconduct, and other external hazards, could expose our data systems to security breaches, cyber-attacks or other disruptions. In addition, we routinely transmit and receive personal, confidential and proprietary information by e-mail and other electronic means. While we attempt to develop secure transmission capabilities with third-party vendors and others with whom we do business, we may be unable to put in place secure

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capabilities with all of such vendors and third parties and, in addition, these third parties may not have appropriate controls in place to protect the confidentiality of the information.

Like other global companies, our computer systems are regularly subject to and will continue to be the target of computer viruses, malware or other malicious codes, unauthorized access, cyber-attacks or other computer-related penetrations. While we have experienced threats to our data and systems, to date, we are not aware that we have experienced a material cyber-security breach. However, over time, the sophistication of these threats continues to increase. Our administrative and technical controls as well as other preventative actions we take to reduce the risk of cyber incidents and protect our information may be insufficient to detect or prevent unauthorized access, other physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems or those of third parties with whom we do business. In addition, new technology that could result in greater operational efficiency may further expose our computer systems to the risk of cyber-attacks.

We have outsourced certain technology and business process functions to third parties and may increasingly do so in the future. If we do not effectively develop, implement and monitor our outsourcing relationships, if third party providers do not perform as anticipated, if we experience technological or other problems with a transition, or if outsourcing relationships relevant to our business process functions are terminated, we may not realize expected productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business. Our outsourcing of certain technology and business process functions to third parties may expose us to increased risk related to data security, service disruptions or the effectiveness of our control system, which could result in monetary and reputational damages or harm to our competitive position. See also "We could be adversely affected if our controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective." In addition to risks caused by third party providers, our ability to receive services from third party providers outside of the United States might be impacted by cultural differences, political instability, unanticipated regulatory requirements or public policy inside or outside of the United States.

The increased risks identified above could expose us to data loss, disruption of service, monetary and reputational damages, competitive disadvantage and significant increases in compliance costs and costs to improve the security and resiliency of our computer systems. The compromise of personal, confidential or proprietary information could also subject us to legal liability or regulatory action under evolving cyber-security, data protection and privacy laws and regulations enacted by the U.S. federal and state governments, Canada, the European Union or other jurisdictions or by various regulatory organizations or exchanges. As a result, our ability to conduct our business and our results of operations might be materially and adversely affected.

Changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate could adversely impact us. Tax laws may change in ways that adversely impact us. For example, federal tax legislation could be enacted to reduce the existing statutory U.S. federal corporate income tax rate from 35%, which would, accordingly, reduce any U.S. deferred tax asset. The amount of any net deferred tax asset is volatile and significantly impacted by changes in unrealized investment gains and losses. The effect of a reduction in a tax rate on net deferred tax assets is required to be recognized, in full, as a reduction of income from continuing operations in the period when enacted and, along with other changes in the tax rules that may increase the Company's actual tax expense, could materially and adversely affect our results of operations. In addition, a reduction in the existing statutory U.S. federal corporate income tax rate could increase the after-tax effect of future significant loss events and our after-tax borrowing costs.

Our investment portfolio has benefited from certain tax exemptions and certain other tax laws and regulations, including, but not limited to, those governing dividends-received deductions and tax credits (such as foreign tax credits). Federal and/or state tax legislation could be enacted in connection with

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deficit reduction or various types of fundamental tax reform that would lessen or eliminate some or all of the tax advantages currently benefiting us and therefore could materially and adversely impact our results of operations. In addition, such legislation could adversely affect the value of our investment portfolio, particularly changes to the taxation of interest from municipal bonds (which comprise 45% of our investment portfolio as of December 31, 2016), which could materially and adversely impact the value of those bonds.

Other tax law changes could materially and adversely impact our results of operations. For example, budget constraints faced by many states and localities increase the likelihood that state and local governments will raise revenue by enacting legislation increasing the taxes paid by individuals and corporations. In addition, any federal tax reform that is designed to reduce the U.S. federal corporate income tax rate in a "revenue neutral" manner could include other provisions that materially increase our taxable income or otherwise increase our cost of doing business. For example, potential tax reform in the United States could include a destination-based, border-adjustable consumption tax system and/or tariffs that could impact the cost of reinsurance and/or imported materials which could increase our loss costs.

We are also subject to a number of additional risks associated with our business outside the United States. We conduct business outside the United States primarily in Canada, the United Kingdom and the Republic of Ireland. In addition, we conduct business in Brazil, primarily through a joint venture, and we have an indirect interest in a joint venture in Colombia. We may also explore opportunities in other countries, including other Latin American countries and other emerging markets such as India.

In conducting business outside of the United States, we are also subject to a number of additional risks, particularly in emerging economies. These risks include restrictions such as price controls, capital controls, currency exchange limits, ownership limits and other restrictive or anti-competitive governmental actions or requirements, which could have an adverse effect on our business and our reputation. A portion of our premiums from outside of the United States is generated in Canada, a substantial portion of which consists of automobile premiums from the province of Ontario, which is a highly regulated market. Our business activities outside the United States may also subject us to currency risk and, in some markets, it may be difficult to effectively hedge that risk, or we may choose not to hedge that risk. In addition, in some markets, we may invest as part of a joint venture with a local counterparty. Because our governance rights may be limited, we may not have control over the ability of the joint venture to make certain decisions and/or mitigate risks it faces, and significant disagreements with a joint venture counterparty may adversely impact our investment and/or reputation. Our business activities outside the United States could subject us to increased volatility in earnings resulting from the need to recognize and subsequently revise a valuation allowance associated with income taxes if we became unable to fully utilize any deferred tax assets, including loss carry-forwards from those foreign operations. Also, political instability, particularly in emerging economies, and changing market conditions around the globe, could result in financial market disruption or an economic downturn in such regions.

Our business activities outside the United States also subject us to additional domestic and foreign laws and regulations, including the Foreign Corrupt Practices Act and similar laws in other countries that prohibit the making of improper payments to foreign officials. Although we have policies and controls in place that are designed to ensure compliance with these laws, if those controls are ineffective and an employee or intermediary fails to comply with applicable laws and regulations, we could suffer civil and criminal penalties and our business and our reputation could be adversely affected. Some countries, particularly emerging economies, have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of, and potential liability under, the local laws. In some jurisdictions, including Brazil, parties to a joint venture may, in some circumstances, have liability for some obligations of the venture,

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and that liability may extend beyond the capital invested. Failure to comply with local laws in a particular market may result in substantial liability and could have a significant and negative effect not only on our business in that market but also on our reputation generally.

In addition, competition for skilled employees in developing markets and other non-U.S. locations may be intense. If we are not able to hire, integrate, motivate and retain a sufficient number of employees with the knowledge and background necessary for our global businesses, those businesses and our results of operations may be adversely affected.

Regulatory changes outside of the United States, including in Canada and the European Union, could adversely impact our results of operations and limit our growth. Insurance laws or regulations that are adopted or amended in jurisdictions outside the U.S. may be more restrictive than current laws or regulations and may result in lower revenues and/or higher costs of compliance and thus could materially and adversely affect our results of operations and limit our growth.

In particular, the European Union's executive body, the European Commission, implemented new capital adequacy and risk management regulations called Solvency II on January 1, 2016 that apply to the Company's businesses across the European Union. Under Solvency II, it is possible that the U.S. parent of a European Union subsidiary could be subject to certain Solvency II requirements if the regulator determines that the subsidiary's capital position is dependent on the parent company and the U.S. parent is not already subject to regulations deemed "equivalent" to Solvency II. In addition, regulators in countries where the Company has operations are working with the International Association of Insurance Supervisors (IAIS) (and with the NAIC, the Federal Reserve and FIO in the U.S.) to consider changes to insurance company supervision, including group supervision and group capital requirements.

The IAIS has developed a methodology for identifying "global systemically important insurers" (G-SIIs) and high level policy measures that will apply to the G-SIIs. The methodology and measures were endorsed by the Financial Stability Board (FSB) created by the G-20. Using the IAIS methodology, the FSB, working with national authorities and the IAIS, identified nine insurers in November 2016 that they designated as G-SIIs. The IAIS is working on the policy measures which include higher capital requirements and enhanced supervision. The Company has not been designated as a G-SII by the FSB; however, the FSB updates the list annually, and it is possible that the methodologies could be amended or interpreted differently in the future and the Company could be named as a G-SII.

The IAIS is also in the process of developing the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). As the current draft of ComFrame is completed, it likely will lead to similar policy measures as those being developed for G-SIIs being made applicable to internationally active insurance groups (or "IAIGs"), including group supervision, group capital requirements, and resolution planning, i.e., a written plan developed by a financial group detailing how it would be wound down in the event of an insolvency. The IAIS is currently in the process of field testing the group capital requirements. The Company would be considered an Internationally Active Insurance Group under the current Consultation Draft. It is possible that ComFrame, if adopted, could lead to enhanced supervision and higher capital standards on a global basis if the IAIS, the NAIC and the individual states adopt the proposed or similar provisions.

While it is not yet known how or if these actions will impact us, such regulation could result in increased costs of compliance, increased disclosure and less flexibility in our capital management, and could adversely impact our results of operations and limit our growth.

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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 our products could reduce our future profitability. Our underwriting profitability depends in large part on our ability to competitively price our products at a level that will adequately compensate us for the risks assumed. As a result, risk selection and pricing through the application of actuarially sound and segmented underwriting criteria is critical. However, laws or regulations, or judicial or administrative findings, could significantly curtail the use of particular types of underwriting criteria. For example, we may use credit scoring as a factor in pricing decisions where allowed by state law. Some consumer groups and/or regulators have alleged that the use of credit scoring violates the law by discriminating against persons belonging to a protected class and are calling for the prohibition or restrictions on the use of credit scoring in underwriting and pricing. A variety of other underwriting criteria and other data or methodologies used in personal and commercial insurance have been and continue to be criticized by regulators, government agencies, consumer groups or individuals on similar or other grounds. Resulting regulatory actions or litigation could result in negative publicity and/or generate adverse rules or findings, such as curtailing the use of important underwriting criteria, or other data or methodologies, each of which could adversely affect our future profitability.

Acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences. From time to time we may investigate and pursue acquisition opportunities if we believe that such opportunities are consistent with our long-term objectives and that the potential rewards of an acquisition justify the risks. The process of integrating an acquired company or business can be complex and costly, however, and may create unforeseen operating difficulties and expenditures. For example, acquisitions may present significant risks, including:

the potential disruption of our ongoing business;

the ineffective integration of, or other difficulties with, underwriting, risk management, claims handling, information technology and actuarial practices;

uncertainties related to an acquiree's reserve estimates and its design and operation of internal controls over financial reporting;

the diversion of management time and resources to acquisition integration challenges;

the loss of key employees;

unforeseen liabilities;

difficulties in achieving the strategic objectives of an acquisition, including the business, financial, technological or distribution objectives;

the cultural challenges associated with integrating employees; and

the impact on our financial position and/or credit ratings.

Acquired businesses may not perform as projected, any cost savings and other synergies anticipated from the acquisition may not materialize and costs associated with the integration may be greater than anticipated. Acquired businesses may not be successfully integrated, resulting in substantial costs or delays and adversely affecting our ability to compete. Accordingly, our results of operations might be materially and adversely affected.

We could be adversely affected if our controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective. Our business is highly dependent on our ability to engage on a daily basis in a large number of insurance underwriting, claim processing and investment activities, many of which are highly complex. These activities often are subject to internal

guidelines and policies, as well as legal and regulatory standards. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will

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be met. If our controls are not effective, it could lead to financial loss, unanticipated risk exposure (including underwriting, credit and investment risk), errors in financial reporting or damage to our reputation. See also "If we experience difficulties with technology, data and network security, outsourcing relationships, or cloud-based technology, our ability to conduct our business could be negatively impacted."

In addition, ineffective controls, including with respect to any joint ventures or recently acquired businesses, could lead to litigation or regulatory action. The volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against various types of financial institutions have increased in recent years. Substantial legal liability or significant regulatory action against us could have a material adverse financial impact. See note 16 of notes to our consolidated financial statements for a discussion of certain legal proceedings in which we are involved.

Our businesses may be adversely affected if we are unable to hire and retain qualified employees. There is significant competition from within the property and casualty insurance industry and from businesses outside the industry for qualified employees, especially those in key positions and those possessing highly specialized knowledge in areas such as underwriting, data and analytics, technology and e-commerce. Our performance is largely dependent on the talents, efforts and proper conduct of highly-skilled individuals, including our senior executives (many of whom have decades of experience in the insurance industry), and the Board of Directors regularly engages in succession discussions. See "Item 10 Directors, Executive Officers and Corporate Governance" for more information relating to our executive officers, including our senior leaders. For many of our senior positions, we compete for talent not just with insurance or financial service companies, but with other large companies and other businesses. Our continued ability to compete effectively in our businesses and to expand into new business areas depends on our ability to attract new employees and to retain and motivate our existing employees. If we are not able to successfully attract, retain and motivate our employees, our business, financial results and reputation could be materially and adversely affected.

Intellectual property is important to our business, and we may be unable to protect and enforce our own intellectual property or we may be subject to claims for infringing the intellectual property of others. Our success depends in part upon our ability to protect our proprietary trademarks, technology and other intellectual property. See "Item 1 Other Information Intellectual Property." We may not, however, be able to protect our intellectual property from unauthorized use and disclosure by others. Further, the intellectual property laws may not prevent our competitors from independently developing trademarks, products and services that are similar to ours. Moreover, the agreements we execute to protect our intellectual property rights may be breached, and we may not have adequate remedies in response. Our attempts to patent or register our intellectual property rights in the U.S. and worldwide may not succeed initially or may later be challenged by third parties. Further, the laws of certain countries outside the United States may not adequately protect our intellectual property rights. We may incur significant costs in our efforts to protect and enforce our intellectual property, including the initiation of expensive and protracted litigation, and we may not prevail. Any inability to enforce our intellectual property rights could have a material adverse effect on our business and our ability to compete.

We may be subject to claims by third parties from time to time that our products, services and technologies infringe on their intellectual property rights. In recent years, certain entities have acquired patents in order to allege claims of infringement against companies, including in some cases, us. Any intellectual property infringement claims brought against us could cause us to spend significant time and money to defend ourselves, regardless of the merits of the claims. If we are found to infringe any third-party intellectual property rights, it could result in reputational harm, payment of significant monetary damages, payment of license fees (if licenses are even available to us, on reasonable terms or otherwise) and/or substantial time and expense to redesign our products, services or technologies to avoid the infringement. In addition, we use third party software in some of our products, services and

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technologies. If any of our software vendors or licensors are faced with infringement claims, we may lose our ability to use such software until the dispute is resolved. If we cannot successfully redesign an infringing product, service or technology (or procure a substitute version), this could have a material adverse effect on our business and our ability to compete.

Changes in federal regulation could impose significant burdens on us and otherwise adversely impact our results. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) established a Federal Insurance Office (FIO) within the U.S. Department of the Treasury. The FIO has limited regulatory authority and is empowered to gather data and information regarding the insurance industry and insurers, but it has in the past recommended an expanded federal role in some circumstances. The Dodd-Frank Act also gives the Federal Reserve supervisory authority over a number of nonbank financial services holding companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council (the FSOC) as "systemically important financial institutions" (SIFI) or own a bank or thrift. The Company, based upon the FSOC's rules and interpretive guidance, has not been designated as a SIFI and is not subject to regulation by the Federal Reserve. Nonetheless, it is possible that FSOC may change its rules or interpretations in the future and conclude that we are a SIFI. If we were designated as a SIFI, the Federal Reserve's supervisory authority could include the ability to impose heightened financial regulation and could impact requirements regarding our capital, liquidity and leverage as well as our business and investment conduct. The Dodd-Frank Act also authorizes assessments to pay for the resolution of SIFI's that have become insolvent. We (as a financial company with more than \$50 billion in assets) could be assessed, and, although any such assessment is required to be risk weighted (i.e., riskier firms pay more), such costs could be material to us and are not currently estimable. As a result of the foregoing, the Dodd-Frank Act, including any changes thereto as a result of its current re-evaluation or otherwise, or other additional federal regulation that is adopted in the future, could impose additional burdens on us, including impacting the ways in which we conduct our business, increasing compliance costs and duplicating state regulation, and could result in a competitive disadvantage, particularly relative to other competitors that may not be subject to the same level of regulation.

Even if we are not subject to additional regulation by the federal government, significant financial sector regulatory reform, could have a significant impact on us. For example, regulatory reform could have an unexpected impact on our rights as a creditor or on our competitive position.

Other potential changes in U.S. federal legislation, regulation and/or administrative policies, including the potential repeal of the McCarran-Ferguson Act (which exempts insurance from most federal regulation) and potential changes in federal taxation, could also significantly harm the insurance industry, including us.

Changes to existing U.S. accounting standards may adversely impact our reported results. As a U.S.-based SEC registrant, we are currently required to prepare our financial statements in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP), as promulgated by the Financial Accounting Standards Board (FASB), subject to the accounting rules and interpretations of the Securities and Exchange Commission (SEC). During the last several years, the SEC has been evaluating whether, when and how International Financial Reporting Standards (IFRS) should be incorporated into the U.S. financial reporting system, including for companies such as us. We are not able to predict whether we will choose, or be required, to adopt IFRS or how the adoption of IFRS (or any future efforts by the SEC to converge U.S. GAAP and IFRS) may impact our financial statements in the future. Changes in U.S. accounting standards, particularly those that specifically apply to property and casualty insurance company operations, may impact the content and presentation of our reported financial results and could cause increased volatility in reported earnings, resulting in other adverse impacts on the Company's ratings and cost of capital, and decrease the understandability of our financial results as well as the comparability of our reported results with other insurers.

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Item 1B. UNRESOLVED STAFF COMMENTS

NONE.

Item 2. PROPERTIES

The Company leases its principal executive offices in New York, New York, as well as approximately 230 field and claim offices totaling approximately 4.5 million square feet throughout the United States under leases or subleases with third parties. The Company also leases offices in Canada, the United Kingdom, the Republic of Ireland, Brazil, India and China that house operations (primarily for Business and International Insurance) in those locations. The Company owns six buildings in Hartford, Connecticut, consisting of approximately 1.8 million square feet of office space. The Company also owns buildings located in other areas of Connecticut; Walnut Creek, California; Norcross, Georgia; St. Paul, Minnesota; and Omaha, Nebraska. The Company owns a building in London, England, which houses a portion of Business and International Insurance's operations in the United Kingdom.

In the opinion of the Company's management, the Company's properties are adequate and suitable for its business as presently conducted and are adequately maintained.

Item 3. LEGAL PROCEEDINGS

The information required with respect to this item can be found under "Contingencies" in note 16 of notes to the consolidated financial statements in this annual report and is incorporated by reference into this Item 3.

Item 4. MINE SAFETY DISCLOSURES

NONE.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information about the Company's executive officers is incorporated by reference from Part III Item 10 of this annual report.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange under the symbol "TRV." The number of holders of record, including individual owners, of the Company's common stock was 44,379 as of February 10, 2017. This is not the actual number of beneficial owners of the Company's common stock, as shares are held in "street name" by brokers and others on behalf of individual owners. The following table sets forth the high and low closing sales prices of the Company's common stock for each quarter during the last two fiscal years and the amount of cash dividends declared per share each quarter.

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	High		Low		Cash Dividend Declared
2016					
First Quarter	\$	117.43	\$	102.08	\$ 0.61
Second Quarter		119.04		108.79	0.67
Third Quarter		119.29		113.71	0.67
Fourth Quarter		122.57		104.67	0.67

2015					
First Quarter	\$	109.73	\$	102.82	\$ 0.55
Second Quarter		108.67		96.14	0.61
Third Quarter		107.82		97.49	0.61
Fourth Quarter		115.83		98.34	0.61

The Company paid cash dividends per share of \$2.62 in 2016 and \$2.38 in 2015. Future dividend decisions will be based on, and affected by, a number of factors, including the operating results and financial requirements of the Company and the impact of dividend restrictions. For information on dividends, as well as restrictions on the ability of certain of the Company's subsidiaries to transfer funds to the Company in the form of cash dividends or otherwise, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." Dividends will be paid by the Company only if declared by its Board of Directors out of funds legally available, and subject to any other restrictions that may be applicable to the Company.

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SHAREHOLDER RETURN PERFORMANCE GRAPH

The following graph shows a five-year comparison of the cumulative total return to shareholders for the Company's common stock and the common stock of companies included in the S&P 500 Index and the S&P 500 Property & Casualty Insurance Index, which the Company believes is the most appropriate comparative index.

-
- (1) The cumulative return to shareholders is a concept used to compare the performance of a company's stock over time and is the ratio of the net stock price change plus the cumulative amount of dividends over the specified time period (assuming dividend reinvestment), to the stock price at the beginning of the time period.
- (2) Assumes \$100 invested in common shares of The Travelers Companies, Inc. on December 31, 2011.
- (3) Companies in the S&P 500 Property & Casualty Insurance Index as of December 31, 2016 were the following: The Travelers Companies, Inc., Chubb Limited, Cincinnati Financial Corporation, The Progressive Corporation, The Allstate Corporation and XL Group Ltd.

Returns of each of the companies included in this index have been weighted according to their respective market capitalizations.

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

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)
Oct. 1, 2016	Oct. 31, 2016	1,607,687	\$ 108.80	1,606,400	\$ 1,509
Nov. 1, 2016	Nov. 30, 2016	2,527,384	111.05	2,520,473	1,229
Dec. 1, 2016	Dec. 31, 2016	2,479,897	119.13	2,479,050	934
Total		6,614,968	113.53	6,605,923	934

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

The Company acquired 9,045 shares for a total cost of approximately \$1 million during the three months ended December 31, 2016 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.

Information relating to compensation plans under which the Company's equity securities are authorized for issuance is set forth in Part III Item 12 of this Report.

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Item 6. SELECTED FINANCIAL DATA

	At and for the year ended December 31,				
	2016	2015	2014	2013	2012
	(in millions, except per share amounts)				
Total revenues	\$ 27,625	\$ 26,815	\$ 27,174	\$ 26,206	\$ 25,756
Net income	\$ 3,014	\$ 3,439	\$ 3,692	\$ 3,673	\$ 2,473
Total investments	\$ 70,488	\$ 70,470	\$ 73,261	\$ 73,160	\$ 73,838
Total assets	100,245	100,184	103,078	103,812	104,938
Claims and claim adjustment expense reserves	47,949	48,295	49,850	50,895	50,922
Total long-term debt	5,887	5,844	5,849	6,246	5,750
Total liabilities	77,024	76,586	78,242	79,016	79,533
Total shareholders' equity	23,221	23,598	24,836	24,796	25,405
Net income per share					
Basic	\$ 10.39	\$ 10.99	\$ 10.82	\$ 9.84	\$ 6.35
Diluted	\$ 10.28	\$ 10.88	\$ 10.70	\$ 9.74	\$ 6.30
Year-end common shares outstanding	279.6	295.9	322.2	353.5	377.4
Per common share amounts					
Cash dividends	\$ 2.62	\$ 2.38	\$ 2.15	\$ 1.96	\$ 1.79
Book value	\$ 83.05	\$ 79.75	\$ 77.08	\$ 70.15	\$ 67.31

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Item 7. 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

2016 Consolidated Results of Operations

Net income of \$3.01 billion, or \$10.39 per share basic and \$10.28 per share diluted

Net earned premiums of \$24.53 billion

Catastrophe losses of \$877 million (\$576 million after-tax)

Net favorable prior year reserve development of \$771 million (\$510 million after-tax)

Combined ratio of 92.0%

Net investment income of \$2.30 billion (\$1.85 billion after-tax)

Operating cash flows of \$4.20 billion

2016 Consolidated Financial Condition

Total investments of \$70.49 billion; fixed maturities and short-term securities comprise 93% of total investments

Total assets of \$100.25 billion

Total debt of \$6.44 billion, resulting in a debt-to-total capital ratio of 21.7% (22.3% excluding net unrealized investment gains, net of tax)

Repurchased 21.9 million common shares for total cost of \$2.47 billion and paid \$757 million of dividends to shareholders

Shareholders' equity of \$23.22 billion

Net unrealized investment gains of \$1.11 billion (\$730 million after-tax)

Book value per common share of \$83.05

Holding company liquidity of \$1.68 billion

Table of Contents**CONSOLIDATED OVERVIEW****Consolidated Results of Operations**

(for the year ended December 31, in millions except per share amounts)	2016	2015	2014
Revenues			
Premiums	\$ 24,534	\$ 23,874	\$ 23,713
Net investment income	2,302	2,379	2,787
Fee income	458	460	450
Net realized investment gains	68	3	79
Other revenues	263	99	145
Total revenues	27,625	26,815	27,174
Claims and expenses			
Claims and claim adjustment expenses	15,070	13,723	13,870
Amortization of deferred acquisition costs	3,985	3,885	3,882
General and administrative expenses	4,154	4,094	3,964
Interest expense	363	373	369
Total claims and expenses	23,572	22,075	22,085
Income before income taxes	4,053	4,740	5,089
Income tax expense	1,039	1,301	1,397
Net income	\$ 3,014	\$ 3,439	\$ 3,692
Net income per share			
Basic	\$ 10.39	\$ 10.99	\$ 10.82
Diluted	\$ 10.28	\$ 10.88	\$ 10.70
Combined ratio			
Loss and loss adjustment expense ratio	60.5%	56.6%	57.6%
Underwriting expense ratio	31.5	31.7	31.4
Combined ratio	92.0%	88.3%	89.0%
Incremental impact of direct to consumer initiative on combined ratio	0.3%	0.5%	0.6%

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

Overview

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

Diluted net income per share of \$10.28 in 2016 decreased by 6% from diluted net income per share of \$10.88 in 2015. Net income of \$3.01 billion in 2016 decreased by 12% from net income of \$3.44 billion in 2015. The lower rate of decrease in diluted net income per share reflected the impact of share repurchases in recent periods. The decrease in net income primarily reflected the pre-tax impacts of (i) higher catastrophe losses, (ii) lower underwriting margins excluding catastrophe losses and prior year reserve development ("underlying underwriting margins"), (iii) lower net favorable prior year reserve development and (iv) lower net investment income, partially offset by (v) higher other revenues and (vi) higher net realized investment gains. Catastrophe losses in 2016 and 2015 were \$877 million and \$514 million, respectively. Net favorable prior year reserve development in 2016 and 2015 was \$771 million and \$941 million, respectively. The lower underlying underwriting margins

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primarily resulted from (i) higher loss estimates in the personal automobile product line for bodily injury liability coverages, (ii) the impact of loss cost trends that modestly exceeded earned pricing in Business and International Insurance and (iii) higher general and administrative expenses. Partially offsetting this net pre-tax decrease in income was a related decrease in income tax expense.

Diluted net income per share of \$10.88 in 2015 increased by 2% over diluted net income per share of \$10.70 in 2014. Net income of \$3.44 billion in 2015 decreased by 7% from net income of \$3.69 billion in 2014. The percentage increase in diluted net income per share compared with the percentage decrease in net income reflected the impact of share repurchases in recent periods. The decrease in net income primarily reflected the pre-tax impacts of (i) lower net investment income, (ii) lower net realized investment gains, (iii) a decline in other revenues and (iv) slightly lower underlying underwriting margins, partially offset by (v) lower catastrophe losses. Catastrophe losses in 2015 and 2014 were \$514 million and \$709 million, respectively. Net favorable prior year reserve development in both 2015 and 2014 was \$941 million. Partially offsetting this net pre-tax decrease in income was a related decrease in income tax expense. In addition, income tax expense in 2015 was reduced by \$32 million as a result of the resolution of prior year tax matters.

The Company has insurance operations in Canada, the United Kingdom and the Republic of Ireland, as well as in Brazil, primarily through a joint venture. 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 years ended December 31, 2016, 2015 and 2014, changes in foreign currency exchange rates had the impact of lowering the 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 Business and International Insurance's operating income for the years reported.

Revenues

Earned Premiums

Earned premiums in 2016 were \$24.53 billion, \$660 million or 3% higher than in 2015. In Business and International Insurance, earned premiums in 2016 increased by 1% over 2015. In Bond & Specialty Insurance, earned premiums in 2016 were comparable to 2015. In Personal Insurance, earned premiums in 2016 increased by 8% over 2015. Earned premiums in 2015 were \$23.87 billion, \$161 million or 1% higher than in 2014. In each of Business and International Insurance and Bond & Specialty Insurance, earned premiums in 2015 were comparable to 2014. In Personal Insurance, earned premiums in 2015 increased by 2% over 2014.

Factors contributing to the changes in earned premiums in each segment in 2016 and 2015 compared with the respective prior year 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.

(for the year ended December 31, in millions)	2016	2015	2014
Average investments(1)	\$ 70,246	\$ 70,627	\$ 72,049
Pre-tax net investment income	2,302	2,379	2,787
After-tax net investment income	1,846	1,905	2,216
Average pre-tax yield(2)	3.3%	3.4%	3.9%
Average after-tax yield(2)	2.6%	2.7%	3.1%

(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.

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Net investment income in 2016 was \$2.30 billion, \$77 million or 3% lower than in 2015. Net investment income from fixed maturity investments in 2016 was \$1.98 billion, \$110 million lower than in 2015. The decrease primarily resulted from lower long-term reinvestment rates available in the market and a modestly lower amount of fixed income investments that were impacted by the Company's \$524 million payment related to the settlement of the PPG Industries, Inc. litigation in the second quarter of 2016. Net investment income from short-term securities in 2016 was \$29 million, \$17 million higher than in 2015, primarily due to higher short-term interest rates. Net investment income generated by non-fixed maturity investments in 2016 was \$330 million, \$13 million higher than in 2015, primarily due to higher returns from private equity limited partnerships, partially offset by lower returns from real estate partnerships.

Net investment income in 2015 was \$2.38 billion, \$408 million or 15% lower than in 2014. Investment income from fixed maturity investments in 2015 was \$2.09 billion, \$153 million lower than in 2014. The decrease primarily resulted from lower long-term reinvestment rates available in the market and a modestly lower amount of fixed income investments that were impacted by the Company's \$579 million payment in the first quarter of 2015 related to the settlement of the Asbestos Direct Action Litigation. Investment income generated by non-fixed maturity investments in 2015 was \$317 million, \$256 million lower than in 2014 primarily due to lower returns from private equity limited partnerships and hedge fund investments. Returns from private equity limited partnerships in 2015 were impacted by lower valuations for energy-related investments.

Fee Income

The National Accounts market in Business and International Insurance is the primary source of the Company's fee-based business. Fee income is described in more detail in Business and International Insurance discussion that follows.

Net Realized Investment Gains

The following table sets forth information regarding the Company's net pre-tax realized investment gains.

(for the year ended December 31, in millions)	2016	2015	2014
Net Realized Investment Gains			
Other-than-temporary impairment losses	\$ (29)	\$ (52)	\$ (26)
Other net realized investment gains	97	55	105
Net realized investment gains	\$ 68	\$ 3	\$ 79

Other Net Realized Investment Gains

Other net realized investment gains in 2016 included \$59 million of net realized gains related to fixed maturity investments, \$14 million of net realized investment gains related to equity securities, \$7 million of net realized investment gains from real estate sales and \$17 million of net realized investment gains related to other investments.

Other net realized investment gains in 2015 included \$81 million of net realized gains related to fixed maturity investments, \$6 million of net realized investment gains related to equity securities, \$2 million of net realized investment gains from real estate sales and \$34 million of net realized investment losses related to other investments. The net realized investment losses related to other investments included \$26 million of realized foreign exchange translation losses incurred in connection with the Company's increased ownership of Travelers Participações em Seguros Brasil S.A.

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Other net realized investment gains in 2014 included \$35 million of net realized gains resulting from the sale of substantially all of one of the Company's real estate joint venture investments. The remaining \$70 million of other net realized gains in 2014 were primarily driven by \$32 million of net realized investment gains related to fixed maturity investments, \$24 million of net realized investment gains related to equity securities, \$8 million of net realized investment gains related to other investments and \$6 million of net realized investment gains from other real estate sales.

Other Revenues

Other revenues in all years presented included installment premium charges. Other revenues in 2016 also included a \$126 million gain related to the favorable settlement of a reinsurance dispute (discussed in more detail in note 16 of notes to the consolidated financial statements), as well as proceeds from the favorable settlement of a claims-related legal matter. Other revenues in 2014 also included revenues associated with the runoff of the Company's National Flood Insurance Program (NFIP) business that was sold on a renewal rights basis in 2013.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in 2016 were \$15.07 billion, \$1.35 billion or 10% higher than in 2015, primarily reflecting the impacts of (i) higher volumes of insured exposures, (ii) loss cost trends, (iii) higher catastrophe losses, (iv) lower net favorable prior year reserve development and (v) higher loss estimates in the personal automobile product line for bodily injury liability coverages, partially offset by (vi) lower levels of what the Company defines as large losses. Catastrophe losses in 2016 included losses from Hurricane Matthew, wind and hail storms in several regions of the United States, flooding in the Southeast region of the United States, wildfires in Canada and Tennessee, and winter storms in the eastern United States.

Claims and claim adjustment expenses in 2015 were \$13.72 billion, \$147 million or 1% lower than in 2014, primarily reflecting the impacts of (i) lower catastrophe losses and (ii) lower non-catastrophe weather-related losses, partially offset by (iii) loss cost trends. Catastrophe losses in 2015 included wildfires in California, hail and wind storms in several regions of the United States and winter storms in several regions of the United States. Catastrophe losses in 2014 included multiple wind and hail storms in several regions of the United States and a winter storm in the Mid-Atlantic, Midwestern and Southeastern regions of the United States.

Factors contributing to net favorable prior year reserve development in each segment for the years ended December 31, 2016, 2015 and 2014 are discussed in more detail in note 7 of notes to the consolidated financial statements.

Significant Catastrophe Losses

The Company defines a "catastrophe" as an event that:

is designated a catastrophe by internationally recognized organizations that track and report on insured losses resulting from catastrophic events, such as Property Claim Services (PCS) for events in the United States and Canada; and

the Company's estimates of its ultimate losses before reinsurance and taxes exceed a pre-established dollar threshold.

The Company's threshold for disclosing catastrophes is determined at the reportable segment level. If a threshold for one segment or a combination thereof is exceeded and the other segments have losses from the same event, losses from the event are identified as catastrophe losses in the segment results and for the consolidated results of the Company. The threshold for 2016 ranged from approximately \$17 million to \$30 million of losses before reinsurance and taxes.

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The following table presents the amount of losses recorded by the Company for significant catastrophes that occurred in 2016, 2015 and 2014, the amount of related net unfavorable (favorable) prior year reserve development recognized in subsequent years, and the estimate of ultimate losses for those catastrophes at December 31, 2016, 2015 and 2014. 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.

(in millions, pre-tax and net of reinsurance)	Losses Incurred / Unfavorable (Favorable) Prior Year Reserve Development for the Year Ended December 31,			Estimated Ultimate Losses at December 31,		
	2016	2015	2014	2016	2015	2014
2014						
PCS Serial Number:						
32 Winter storm	\$ (1)	\$ (5)	\$ 144	\$ 138	\$ 139	\$ 144
43 Severe wind and hail storms	5	(4)	180	181	176	180
2015						
PCS Serial Number:						
68 Winter storm	(11)	140	n/a	129	140	n/a
2016						
PCS Serial Number:						
21 Severe wind and hail storms	150	n/a	n/a	150	n/a	n/a
25 Severe wind and hail storms	168	n/a	n/a	168	n/a	n/a

n/a: not applicable.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in 2016 was \$3.99 billion, \$100 million or 3% higher than in 2015. Amortization of deferred acquisition costs in 2015 was \$3.89 billion, comparable with 2014. 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 2016 were \$4.15 billion, \$60 million or 1% higher than in 2015. General and administrative expenses in 2015 were \$4.09 billion, \$130 million or 3% higher than in 2014. The increase in 2015 primarily reflected the impact of a \$76 million first quarter 2014 reduction in the estimated liability for state assessments related to workers' compensation premiums. General and administrative expenses are discussed in more detail in the segment discussions that follow.

Interest Expense

Interest expense in 2016, 2015 and 2014 was \$363 million, \$373 million and \$369 million, respectively.

Income Tax Expense

Income tax expense in 2016 was \$1.04 billion, \$262 million or 20% lower than in 2015, primarily reflecting the impact of the \$687 million decrease in income before income taxes in 2016. Income tax expense in 2015 was \$1.30 billion, \$96 million or 7% lower than in 2014, primarily reflecting the impact

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of the \$349 million decrease in income before income taxes in 2015 and the \$32 million reduction in income tax expense in 2015 resulting from the resolution of prior year tax matters.

The Company's effective tax rate was 26%, 27% and 27% in 2016, 2015 and 2014, respectively. The effective tax rates in all years were lower than the statutory rate of 35% 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 92.0% in 2016 was 3.7 points higher than the combined ratio of 88.3% in 2015.

The loss and loss adjustment expense ratio of 60.5% in 2016 was 3.9 points higher than the loss and loss adjustment expense ratio of 56.6% in the same period of 2015. Catastrophe losses accounted for 3.6 points and 2.1 points of the 2016 and 2015 loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in 2016 and 2015 provided 3.2 points and 3.9 points of benefit, respectively, to the loss and loss adjustment expense ratio. The loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development ("underlying loss and loss adjustment expense ratio") in 2016 was 1.7 points higher than the 2015 ratio on the same basis, primarily reflecting (i) higher loss estimates in the personal automobile product line for bodily injury liability coverages and (ii) the impact of loss cost trends that modestly exceeded earned pricing in Business and International Insurance, partially offset by (iii) lower levels of what the Company defines as large losses.

The underwriting expense ratio of 31.5% was 0.2 points lower than the underwriting expense ratio of 31.7% in 2015.

The combined ratio of 88.3% in 2015 was 0.7 points lower than the combined ratio of 89.0% in 2014.

The loss and loss adjustment expense ratio of 56.6% in 2015 was 1.0 points lower than the loss and loss adjustment expense ratio of 57.6% in 2014. Catastrophe losses accounted for 2.1 points and 3.0 points of the 2015 and 2014 loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in 2015 and 2014 provided 3.9 points of benefit to the loss and loss adjustment expense ratio in each year. The underlying loss and loss adjustment expense ratio in 2015 was 0.1 points lower than the 2014 ratio on the same basis.

The underwriting expense ratio of 31.7% in 2015 was 0.3 points higher than the underwriting expense ratio of 31.4% in 2014, primarily reflecting the impact of the first quarter 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums in Business and International Insurance.

Written Premiums

Consolidated gross and net written premiums were as follows:

(for the year ended December 31, in millions)	Gross Written Premiums		
	2016	2015	2014
Business and International Insurance	\$ 16,036	\$ 16,067	\$ 16,202
Bond & Specialty Insurance	2,183	2,153	2,165
Personal Insurance	8,276	7,562	7,265
Total	\$ 26,495	\$ 25,782	\$ 25,632

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(for the year ended December 31, in millions)	Net Written Premiums		
	2016	2015	2014
Business and International Insurance	\$ 14,675	\$ 14,583	\$ 14,636
Bond & Specialty Insurance	2,099	2,081	2,103
Personal Insurance	8,184	7,457	7,165
Total	\$ 24,958	\$ 24,121	\$ 23,904

Gross and net written premiums in 2016 both increased by 3% over 2015. Gross and net written premiums in 2015 both increased by 1% over 2014. Factors contributing to the changes in gross and net written premiums in each segment in 2016 and 2015 as compared with the respective prior year are discussed in more detail in the segment discussions that follow.

RESULTS OF OPERATIONS BY SEGMENT**Business and International Insurance**

Results of Business and International Insurance were as follows:

(for the year ended December 31, in millions)	2016	2015	2014
Revenues:			
Earned premiums	\$ 14,620	\$ 14,521	\$ 14,512
Net investment income	1,763	1,824	2,156
Fee income	442	445	438
Other revenues	176	23	46
Total revenues	\$ 17,001	\$ 16,813	\$ 17,152

Total claims and expenses	\$ 14,294	\$ 13,874	\$ 14,007
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Operating income	\$ 2,048	\$ 2,170	\$ 2,347
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Loss and loss adjustment expense ratio	61.4%	59.6%	61.6%
Underwriting expense ratio	32.9	32.5	31.5

Combined ratio	94.3%	92.1%	93.1%
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Overview

Operating income in 2016 was \$2.05 billion, \$122 million or 6% lower than operating income of \$2.17 billion in 2015, primarily reflecting the pre-tax impacts of (i) higher catastrophe losses, (ii) lower underlying underwriting margins and (iii) lower net investment income, partially offset by (iv) higher other revenues and (v) higher net favorable prior year reserve development. Catastrophe losses in 2016 and 2015 were \$512 million and \$247 million, respectively. Net favorable prior year reserve development in 2016 and 2015 was \$484 million and \$405 million,

respectively. The lower underlying underwriting margins primarily resulted from (i) the impact of loss cost trends that modestly exceeded earned pricing and (ii) higher general and administrative expenses, partially offset by (iii) lower levels of what the Company defines as large losses. Partially offsetting this net pre-tax decrease in operating income was a related decrease in income tax expense.

Operating income in 2015 was \$2.17 billion, \$177 million or 8% lower than operating income of \$2.35 billion in 2014, primarily reflecting the pre-tax impacts of (i) lower net investment income and (ii) lower underlying underwriting margins, partially offset by (iii) lower catastrophe losses and (iv) higher net favorable prior year reserve development. Catastrophe losses in 2015 and 2014 were \$247 million and \$367 million, respectively. Net favorable prior year reserve development in 2015 and 2014 was \$405 million and \$322 million, respectively. The lower underlying underwriting margins

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primarily resulted from the pre-tax impact of a 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums, partially offset by lower non-catastrophe weather-related losses. Partially offsetting this net pre-tax decrease in income was a related decrease in income tax expense. In addition, income tax expense in 2015 was reduced by \$12 million as a result of the resolution of prior year tax matters.

Revenues

Earned Premiums

Earned premiums of \$14.62 billion in 2016 were \$99 million or 1% higher than in 2015. Earned premiums of \$14.52 billion in 2015 were comparable to 2014.

Net Investment Income

Net investment income in 2016 was \$1.76 billion, \$61 million or 3% lower than in 2015. Net investment income in 2015 was \$1.82 billion, \$332 million or 15% lower than in 2014. Included in Business and International 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 the "Consolidated Results of Operations" discussion for a description of the factors contributing to the declines in the Company's consolidated net investment income in 2016 and 2015 compared with the respective prior years. In addition, refer to note 2 of notes to the consolidated financial statements 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 its service businesses, which include claim and loss prevention services to large companies that choose to self-insure a portion of their insurance risks, as well as claims and policy management services to workers' compensation residual market pools. Fee income in 2016 was \$442 million, 1% lower than in 2015. Fee income in 2015 was \$445 million, \$7 million or 2% higher than in 2014. The increase in 2015 primarily reflected higher serviced premium volume in workers' compensation residual market pools and higher claim volume in the large deductible business.

Other Revenues

Other revenues in 2016 included a \$126 million gain related to the favorable settlement of a reinsurance dispute (discussed in more detail in note 16 of notes to the consolidated financial statements), as well as proceeds from a favorable settlement of a claims-related legal matter.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in 2016 were \$9.19 billion, \$331 million or 4% higher than in 2015, primarily reflecting the impacts of (i) loss cost trends and (ii) higher catastrophe losses, partially offset by (iii) lower levels of what the Company defines as large losses and (iv) higher net favorable prior year reserve development. Claims and claim adjustment expenses in 2015 were \$8.86 billion, \$286 million or 3% lower than in 2014, primarily reflecting the impacts of (i) lower catastrophe losses, (ii) higher net favorable prior year reserve development and (iii) lower non-catastrophe weather-related losses, partially offset by (iv) the impact of loss cost trends. Factors contributing to net favorable prior year reserve development during the years ended December 31,

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2016, 2015 and 2014 are discussed in more detail in note 7 of notes to the consolidated financial statements.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in 2016 was \$2.36 billion, \$29 million or 1% higher than in 2015. Amortization of deferred acquisition costs of \$2.33 billion in 2015 was comparable to 2014.

General and Administrative Expenses

General and administrative expenses in 2016 were \$2.75 billion, \$60 million or 2% higher than in 2015, primarily reflecting higher employee and technology related expenses. General and administrative expenses in 2015 were \$2.69 billion, \$145 million or 6% higher than in 2014, primarily reflecting the impacts of the 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums, higher employee and technology related expenses and higher contingent commissions.

Income Tax Expense

Income tax expense in 2016 was \$659 million, \$110 million or 14% lower than in 2015, primarily reflecting the \$232 million decrease in income before income taxes in 2016. Income tax expense in 2015 was \$769 million, \$29 million or 4% lower than in 2014, primarily reflecting the \$206 million decrease in income before income taxes in 2015 and the \$12 million reduction in income tax expense in 2015 resulting from the resolution of prior year tax matters.

Combined Ratio

The combined ratio of 94.3% in 2016 was 2.2 points higher than the combined ratio of 92.1% in 2015.

The loss and loss adjustment expense ratio of 61.4% in 2016 was 1.8 points higher than the loss and loss adjustment expense ratio of 59.6% in 2015. Catastrophe losses in 2016 and 2015 accounted for 3.5 points and 1.7 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in 2016 and 2015 provided 3.3 points and 2.8 points of benefit, respectively, to the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in 2016 was 0.5 points higher than the 2015 ratio on the same basis.

The underwriting expense ratio of 32.9% in 2016 was 0.4 points higher than the underwriting expense ratio of 32.5% in 2015.

The combined ratio of 92.1% in 2015 was 1.0 point lower than the combined ratio of 93.1% in 2014.

The loss and loss adjustment expense ratio of 59.6% in 2015 was 2.0 points lower than the loss and loss adjustment expense ratio of 61.6% in 2014. Catastrophe losses in 2015 and 2014 accounted for 1.7 points and 2.5 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in 2015 and 2014 provided 2.8 points and 2.2 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2015 underlying loss and loss adjustment expense ratio was 0.6 points lower than the 2014 ratio on the same basis.

The underwriting expense ratio of 32.5% in 2015 was 1.0 point higher than the underwriting expense ratio of 31.5% in 2014, primarily reflecting the impact of the 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers' compensation premiums and the increase in general and administrative expenses discussed above.

Table of Contents**Written Premiums**

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

(for the year ended December 31, in millions)	Gross Written Premiums		
	2016	2015	2014
Domestic:			
Select Accounts	\$ 2,792	\$ 2,773	\$ 2,754
Middle Market	6,716	6,587	6,404
National Accounts	1,683	1,725	1,690
First Party	1,866	1,844	1,846
Specialized Distribution	1,098	1,117	1,081
Total Domestic	14,155	14,046	13,775
International	1,881	2,021	2,427
Total Business and International Insurance	\$ 16,036	\$ 16,067	\$ 16,202

(for the year ended December 31, in millions)	Net Written Premiums		
	2016	2015	2014
Domestic:			
Select Accounts	\$ 2,729	\$ 2,716	\$ 2,707
Middle Market	6,463	6,302	6,077
National Accounts	1,058	1,048	1,047
First Party	1,601	1,564	1,579
Specialized Distribution	1,094	1,111	1,074
Total Domestic	12,945	12,741	12,484
International	1,730	1,842	2,152
Total Business and International Insurance	\$ 14,675	\$ 14,583	\$ 14,636

Gross written premiums in 2016 were comparable with 2015. Net written premiums in 2016 increased by 1% over 2015. Business retention rates remained strong in 2016. Renewal premium changes in 2016 remained positive but were lower than in 2015. New business premiums in 2016 increased over 2015.

Gross written premiums in 2015 were 1% lower than in 2014. Net written premiums in 2015 were comparable to 2014. Gross and net written premiums in 2015 were negatively impacted by changes in foreign currency exchange rates. Business retention rates remained strong in 2015. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 decreased from 2014.

Select Accounts. Net written premiums of \$2.73 billion in 2016 were comparable with 2015. Business retention rates remained strong in 2016. Renewal premium changes in 2016 remained positive but were lower than in 2015. New business premiums in 2016 increased over 2015. Net written premiums of \$2.72 billion in 2015 were comparable to 2014. Business retention rates remained strong in 2015. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 were comparable to 2014.

Middle Market. Net written premiums of \$6.46 billion in 2016 increased by 3% over 2015. Business retention rates remained strong in 2016. Renewal premium changes in 2016 remained positive but were slightly lower than in 2015. New business premiums in 2016 increased over 2015. Net written premiums of \$6.30 billion in 2015 increased by 4% over 2014. Business retention rates remained strong

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in 2015. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 increased over 2014.

National Accounts. Net written premiums of \$1.06 billion in 2016 increased by 1% over 2015. Business retention rates remained strong in 2016. Renewal premium changes in 2016 remained positive but were lower than in 2015. New business premiums in 2016 increased over 2015. Net written premiums of \$1.05 billion in 2015 were comparable to 2014. Business retention rates remained strong in 2015. Renewal premium changes in 2015 remained positive but were slightly lower than in 2014. New business premiums in 2015 increased over 2014.

First Party. Net written premiums of \$1.60 billion in 2016 increased by 2% over 2015. Business retention rates remained strong in 2016. Renewal premium changes in 2016 were zero, compared with slightly negative in 2015. New business premiums in 2016 increased over 2015. Net written premiums of \$1.56 billion in 2015 decreased by 1% from 2014. Business retention rates remained strong in 2015. Renewal premium changes in 2015 were negative, compared with positive renewal premium changes in 2014. New business premiums in 2015 decreased from 2014.

Specialized Distribution. Net written premiums of \$1.09 billion in 2016 decreased by 2% from 2015. Business retention rates in 2016 were lower than in 2015. Renewal premium changes in 2016 remained positive but were lower than in 2015. New business premiums in 2016 decreased slightly from 2015. Net written premiums of \$1.11 billion in 2015 increased by 3% over 2014. Business retention rates remained strong in 2015. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 increased over 2014.

International. Net written premiums of \$1.73 billion in 2016 decreased by 6% from 2015. The decline in 2016 was primarily driven by the impacts of changes in foreign currency exchange rates, disciplined underwriting and lower levels of economic activity in the Company's European operations, including Lloyd's. Excluding the surety line of business, for which the following are not relevant measures, business retention rates remained strong in 2016. Renewal premium changes in 2016 were slightly negative, consistent with 2015. New business premiums in 2016 increased over 2015. Net written premiums of \$1.84 billion in 2015 decreased by 14% from 2014, primarily due to changes in foreign currency exchange rates. Excluding the surety line of business, for which the following are not relevant measures, business retention rates remained strong in 2015. Renewal premium changes in 2015 were slightly negative, compared with positive renewal premium changes in 2014. New business premiums in 2015 decreased from 2014.

Bond & Specialty Insurance

Results of Bond & Specialty Insurance were as follows:

(for the year ended December 31, in millions)	2016	2015	2014
Revenues:			
Earned premiums	\$ 2,088	\$ 2,085	\$ 2,076
Net investment income	210	223	252
Other revenues	20	22	19
Total revenues	\$ 2,318	\$ 2,330	\$ 2,347
 Total claims and expenses	 \$ 1,358	 \$ 1,425	 \$ 1,272
 Operating income	 \$ 653	 \$ 633	 \$ 727
 Loss and loss adjustment expense ratio	 26.8%	 30.4%	 22.8%
Underwriting expense ratio	37.6	37.5	38.0
 Combined ratio	 64.4%	 67.9%	 60.8%

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Overview

Operating income in 2016 was \$653 million, \$20 million or 3% higher than operating income of \$633 million in 2015, primarily reflecting the pre-tax impact of (i) higher net favorable prior year reserve development, partially offset by (ii) lower net investment income. Net favorable prior year reserve development in 2016 and 2015 was \$326 million and \$258 million, respectively. Catastrophe losses in 2016 and 2015 were \$6 million and \$3 million, respectively. Partially offsetting this net pre-tax increase in operating income was a related increase in income tax expense.

Operating income in 2015 was \$633 million, \$94 million or 13% lower than operating income of \$727 million in 2014, primarily reflecting the pre-tax impacts of (i) lower net favorable prior year reserve development and (ii) lower net investment income, partially offset by (iii) higher underlying underwriting margins. Net favorable prior year reserve development in 2015 and 2014 was \$258 million and \$450 million, respectively. Catastrophe losses in 2015 and 2014 were \$3 million and \$6 million, respectively. The higher underlying underwriting margins primarily resulted from lower loss estimates in certain management liability businesses. Partially offsetting this net pre-tax decrease in operating income was a related decrease in income tax expense. In addition, income tax expense in 2015 was reduced by \$16 million as a result of the resolution of prior year tax matters.

Revenues

Earned Premiums

Earned premiums of \$2.09 billion in both 2016 and 2015 were comparable to the respective prior year amounts.

Net Investment Income

Net investment income in 2016 was \$210 million, \$13 million or 6% lower than in 2015. Net investment income in 2015 was \$223 million, \$29 million or 12% lower than in 2014. 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. As a result, reported net investment income in Bond & Specialty Insurance reflects a significantly smaller proportion of allocated net investment income, including that from the Company's non-fixed maturity investments that experienced an increase in investment income in 2016 and a decrease in investment income in 2015. Refer to the "Net Investment Income" section of the "Consolidated Results of Operations" discussion for a description of the factors contributing to the declines in the Company's consolidated net investment income in 2016 and 2015 compared with the respective prior years. In addition, refer to note 2 of notes to the consolidated financial statements 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 2016 were \$572 million, \$71 million or 11% lower than in 2015, primarily reflecting higher net favorable prior year reserve development. Claims and claim adjustment expenses in 2015 were \$643 million, \$162 million or 34% higher than in 2014, primarily reflecting (i) lower net favorable prior year reserve development, partially offset by (ii) lower loss estimates in certain management liability businesses. Factors contributing to net favorable prior year reserve development during the years ended December 31, 2016, 2015 and 2014 are discussed in more detail in note 7 of notes to the consolidated financial statements.

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Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in 2016 was \$397 million, \$4 million or 1% higher than in 2015. Amortization of deferred acquisition costs in 2015 was \$393 million, \$5 million or 1% higher than in 2014.

General and Administrative Expenses

General and administrative expenses in 2016 were \$389 million, comparable with 2015. General and administrative expenses in 2015 were \$389 million, \$14 million or 3% lower than in 2014. The decrease in 2015 primarily reflected the impact of certain customer-related intangible assets becoming fully amortized during the second quarter of 2015.

Income Tax Expense

Income tax expense in 2016 was \$307 million, \$35 million or 13% higher than in 2015, primarily reflecting the impact of the \$55 million increase in income before income taxes in 2016. Income tax expense in 2015 was \$272 million, \$76 million or 22% lower than in 2014, primarily reflecting the \$170 million decrease in income before income taxes and the \$16 million reduction in income tax expense in 2015 resulting from the resolution of prior year tax matters.

Combined Ratio

The combined ratio of 64.4% in 2016 was 3.5 points lower than the combined ratio of 67.9% in 2015.

The loss and loss adjustment expense ratio of 26.8% in 2016 was 3.6 points lower than the loss and loss adjustment expense ratio of 30.4% in 2015. Net favorable prior year reserve development in 2016 and 2015 provided 15.6 points and 12.4 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in 2016 and 2015 accounted for 0.3 points and 0.2 points, respectively, of the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in 2016 was 0.5 points lower than the 2015 ratio on the same basis.

The underwriting expense ratio of 37.6% in 2016 was 0.1 points higher than the underwriting expense ratio of 37.5% in 2015.

The combined ratio of 67.9% in 2015 was 7.1 points higher than the combined ratio of 60.8% in 2014.

The loss and loss adjustment expense ratio of 30.4% in 2015 was 7.6 points higher than the 2014 ratio of 22.8%. Net favorable prior year reserve development in 2015 and 2014 provided 12.4 points and 21.7 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in 2015 and 2014 accounted for 0.2 points and 0.3 points of the loss and loss adjustment expense ratio, respectively. The 2015 underlying loss and loss adjustment expense ratio was 1.6 points lower than the 2014 ratio on the same basis, primarily reflecting lower loss estimates in certain management liability businesses.

The underwriting expense ratio of 37.5% in 2015 was 0.5 points lower than the underwriting expense ratio of 38.0% in 2014, primarily reflecting the impact of lower general and administrative expenses discussed above.

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Written Premiums

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

(for the year ended December 31, in millions)	Gross Written Premiums		
	2016	2015	2014
Total Bond & Specialty Insurance	\$ 2,183	\$ 2,153	\$ 2,165

(for the year ended December 31, in millions)	Net Written Premiums		
	2016	2015	2014
Total Bond & Specialty Insurance	\$ 2,099	\$ 2,081	\$ 2,103

Gross written premiums in 2016 increased by 1% over 2015. Gross written premiums in 2015 decreased by 1% from 2014.

Net written premiums in 2016 were \$2.10 billion, \$18 million or 1% higher than in 2015. Excluding the surety line of business, for which the following are not relevant measures, business retention rates remained strong in 2016. Renewal premium changes in 2016 remained positive but were lower than in 2015. New business premiums in 2016 increased over 2015.

Net written premiums in 2015 were \$2.08 billion, \$22 million or 1% lower than in 2014. Excluding the surety line of business, for which the following are not relevant measures, business retention rates remained strong in 2015. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 increased over 2014.

Personal Insurance

Results of Personal Insurance were as follows:

(for the year ended December 31, in millions)	2016	2015	2014
Revenues:			
Earned premiums	\$ 7,826	\$ 7,268	\$ 7,125
Net investment income	329	332	379
Fee income	16	15	12
Other revenues	56	48	80
Total revenues	\$ 8,227	\$ 7,663	\$ 7,596
Total claims and expenses	\$ 7,526	\$ 6,372	\$ 6,406
Operating income	\$ 510	\$ 889	\$ 824
Loss and loss adjustment expense ratio	67.8%	58.1%	59.6%
Underwriting expense ratio	27.3	28.5	29.1

Combined ratio	95.1%	86.6%	88.7%
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Incremental impact of direct to consumer initiative on combined ratio	1.0%	1.8%	1.7%
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Overview

Operating income in 2016 was \$510 million, \$379 million or 43% lower than operating income of \$889 million in 2015, primarily reflecting the pre-tax impacts of (i) net unfavorable prior year reserve development as compared to net favorable prior year reserve development in 2015, (ii) lower underlying underwriting margins and (iii) higher catastrophe losses. Net unfavorable prior year reserve development in 2016 was \$39 million, compared with net favorable prior year reserve development of

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\$278 million in 2015. Catastrophe losses in 2016 and 2015 were \$359 million and \$264 million, respectively. The lower underlying underwriting margins primarily resulted from higher loss estimates in the Automobile product line for bodily injury liability coverages. Partially offsetting this net pre-tax decrease in operating income was a related decrease in income tax expense.

Operating income in 2015 was \$889 million, \$65 million or 8% higher than operating income of \$824 million in 2014, primarily reflecting the pre-tax impacts of (i) higher net favorable prior year reserve development and (ii) lower catastrophe losses, partially offset by (iii) lower net investment income and (iv) a decline in other revenues. Net favorable prior year reserve development in 2015 was \$278 million, compared with \$169 million in 2014. Catastrophe losses in 2015 were \$264 million, compared with \$336 million in 2014. Partially offsetting this net pre-tax increase in operating income was a related increase in income tax expense. Income tax expense in 2015 was reduced by \$4 million as a result of the resolution of prior year tax matters.

Revenues

Earned Premiums

Earned premiums in 2016 were \$7.83 billion, \$558 million or 8% higher than in 2015. Earned premiums in 2015 were \$7.27 billion, \$143 million or 2% higher than in 2014. The increases in earned premiums in 2016 and 2015 reflected increases in net written premiums over the respective preceding twelve months.

Net Investment Income

Net investment income in 2016 was \$329 million, \$3 million or 1% lower than in 2015. Net investment income in 2015 was \$332 million, \$47 million or 12% lower than in 2014. Refer to the "Net Investment Income" section of "Consolidated Results of Operations" for a discussion of the decreases in the Company's net investment income in 2016 and 2015 as compared with the respective prior year. In addition, refer to note 2 of notes to the consolidated financial statements for a discussion of the Company's net investment income allocation methodology.

Other Revenues

Other revenues in all years presented included installment premium charges. Other revenues in 2014 also included revenues associated with the runoff of the Company's National Flood Insurance Program (NFIP) business that was sold on a renewal rights basis in 2013.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in 2016 were \$5.31 billion, \$1.09 billion or 26% higher than in 2015, primarily reflecting (i) higher volumes of insured exposures, (ii) net unfavorable prior year reserve development as compared to net favorable prior year reserve development in 2015, (iii) higher loss estimates in the Automobile product line for bodily injury liability coverages, (iv) the impact of loss cost trends and (v) higher catastrophe losses. Claims and claim adjustment expenses of \$4.22 billion in 2015 were comparable to 2014, primarily reflecting (i) higher net favorable prior year reserve development and (ii) lower catastrophe losses, largely offset by (iii) the impact of loss cost trends and (iv) higher volumes of insured exposures. Factors contributing to prior year reserve development during the years ended December 31, 2016, 2015 and 2014 are discussed in more detail in note 7 of notes to the consolidated financial statements.

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Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in 2016 was \$1.23 billion, \$67 million or 6% higher than in 2015, generally consistent with the increase in earned premiums. Amortization of deferred acquisition costs in 2015 was \$1.16 billion, \$10 million or 1% lower than in 2014.

General and Administrative Expenses

General and administrative expenses of \$988 million in both 2016 and 2015 were comparable with the respective prior year amounts.

Income Tax Expense

Income tax expense in 2016 was \$191 million, \$211 million or 52% lower than in 2015, primarily reflecting the impact of the \$590 million decrease in income before income taxes in 2016. Income tax expense in 2015 was \$402 million, \$36 million or 10% higher than in 2014, primarily reflecting the \$101 million increase in income before income taxes, partially offset by the \$4 million reduction in income tax expense resulting from the resolution of prior year tax matters in 2015.

Combined Ratio

The combined ratio of 95.1% in 2016 was 8.5 points higher than the combined ratio of 86.6% in 2015.

The loss and loss adjustment expense ratio of 67.8% in 2016 was 9.7 points higher than the loss and loss adjustment expense ratio of 58.1% in 2015. Net unfavorable prior year reserve development in 2016 accounted for 0.5 points of the loss and loss adjustment expense ratio in 2016. Net favorable prior year reserve development provided 3.8 points of benefit to the loss and loss adjustment expense ratio in 2015. Catastrophe losses accounted for 4.5 points and 3.6 points of the loss and loss adjustment expense ratios in 2016 and 2015, respectively. The underlying loss and loss adjustment expense ratio in 2016 was 4.5 points higher than the 2015 ratio on the same basis, primarily reflecting (i) higher loss estimates in the Automobile product line for bodily injury liability coverages, (ii) the tenure impact of higher levels of new business in recent years in the Automobile product line and (iii) a higher level of automobile business relative to homeowners and other business.

The underwriting expense ratio of 27.3% in 2016 was 1.2 points lower than the underwriting expense ratio of 28.5% in 2015, primarily reflecting the impact of an increase in earned premiums.

The combined ratio of 86.6% in 2015 was 2.1 points lower than the combined ratio of 88.7% in 2014.

The loss and loss adjustment expense ratio of 58.1% in 2015 was 1.5 points lower than the 2014 ratio of 59.6%. Net favorable prior year reserve development in 2015 and 2014 provided 3.8 points and 2.4 points of benefit to the loss and loss adjustment expense ratio, respectively. Catastrophe losses accounted for 3.6 points and 4.7 points of the 2015 and 2014 loss and loss adjustment expense ratio, respectively. The 2015 underlying loss and loss adjustment expense ratio was 1.0 point higher than the 2014 ratio on the same basis, primarily reflecting (i) the tenure impact of higher levels of new business in recent years in the Automobile product line and (ii) a higher level of automobile business relative to homeowners and other business.

The underwriting expense ratio of 28.5% in 2015 was 0.6 points lower than the underwriting expense ratio of 29.1% in 2014, primarily reflecting lower commission expenses.

Table of Contents**Agency Written Premiums**

Gross and net written premiums by product line were as follows for Personal Insurance's Agency business, which comprises business written through agents, brokers and other intermediaries and represents almost all of Personal Insurance's gross and net written premiums:

(for the year ended December 31, in millions)	Gross Written Premiums		
	2016	2015	2014
Agency Automobile	\$ 4,123	\$ 3,551	\$ 3,278
Agency Homeowners and Other	3,843	3,773	3,800
Total Agency Personal Insurance	\$ 7,966	\$ 7,324	\$ 7,078

(for the year ended December 31, in millions)	Net Written Premiums		
	2016	2015	2014
Agency Automobile	\$ 4,103	\$ 3,534	\$ 3,260
Agency Homeowners and Other	3,772	3,687	3,718
Total Agency Personal Insurance	\$ 7,875	\$ 7,221	\$ 6,978

In 2016, gross and net agency written premiums were both 9% higher than in 2015.

In the Agency Automobile line of business, net written premiums in 2016 were 16% higher than in 2015. Business retention rates remained strong in 2016. Renewal premium changes in 2016 remained positive and were higher than in 2015. New business premiums in 2016 increased over 2015.

In the Agency Homeowners and Other line of business, net written premiums in 2016 were 2% higher than in 2015. Business retention rates remained strong in 2016. Renewal premium changes in 2016 remained positive but were lower than in 2015. New business premiums in 2016 increased over 2015.

In 2015, gross and net Agency written premiums were both 3% higher than in 2014.

In 2015, net written premiums in the Agency Automobile line of business were 8% higher than in 2014. Business retention rates remained strong in 2015. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 increased over 2014.

In 2015, net written premiums in the Agency Homeowners and Other line of business were 1% lower than in 2014. Business retention rates remained strong in 2015. Renewal premium changes in 2015 remained positive but were lower than in 2014. New business premiums in 2015 increased over 2014.

For its Agency business, Personal Insurance had approximately 6.6 million and 6.2 million active policies at December 31, 2016 and 2015, respectively.

Direct to Consumer Written Premiums

In the direct to consumer business, net written premiums in 2016 were \$309 million, \$73 million or 31% higher than in 2015. In 2016, automobile net written premiums increased by \$58 million or 35% over 2015, and homeowners and other net written premiums increased by \$15 million or 21% over 2015. Net written premiums in 2015 were \$236 million, \$49 million or 26% higher than in 2014. In 2015, automobile net written premiums increased by \$36 million or 28% over 2014, and homeowners and other net written premiums increased by \$13 million or 23% over 2014. The direct to consumer business had 296,000 and 242,000 active policies at December 31, 2016 and 2015, respectively.

Table of Contents**Interest Expense and Other**

(for the year ended December 31, in millions)	2016	2015	2014
Operating income (loss)	\$ (244)	\$ (255)	\$ (257)

The operating income (loss) for Interest Expense and Other in 2016 was \$11 million lower than in 2015. The operating income (loss) for Interest and Other in 2015 was \$2 million lower than in 2014. After-tax interest expense in 2016, 2015 and 2014 was \$236 million, \$242 million and \$240 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 from the Company's policyholders (which includes others seeking coverage under a policy). Factors underlying these claim filings include continued intensive advertising by lawyers seeking asbestos claimants and the continued 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. In addition to contributing to the overall number of claims, bankruptcy proceedings may increase the volatility of asbestos-related losses by initially delaying the reporting of claims and later by significantly accelerating and increasing loss payments by insurers, including the Company. 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 coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage. In these instances, policyholders also may assert that each individual bodily injury claim should be treated as a separate occurrence under the policy. It is difficult to predict whether these policyholders will be successful on both issues. To the extent both issues are resolved in a policyholder's favor and other Company defenses are not successful, the Company's coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per-occurrence limits and the number of asbestos bodily injury claims against the policyholders. Although the Company has seen a reduction in the overall risk associated with these lawsuits, it remains difficult to predict the ultimate cost of these 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. There also may be instances where a court may not approve a proposed

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settlement, which may result in additional litigation and potentially less beneficial outcomes for the Company. As in the past, the Company will continue to pursue settlement opportunities.

In addition to claims against policyholders, proceedings have been launched directly against insurers, including the Company, by individuals challenging insurers' conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos-related bodily injuries. Travelers Property Casualty Corp. (TPC) had previously entered into settlement agreements in connection with a number of these direct action claims (Direct Action Settlements). The Company had been involved in litigation concerning whether all of the conditions of the Direct Action Settlements had been satisfied. On July 22, 2014, the United States Court of Appeals for the Second Circuit ruled that all of the conditions of the Direct Action Settlements had been satisfied. On January 15, 2015, the bankruptcy court entered an order directing the Company to pay \$579 million to the plaintiffs, comprised of the \$502 million settlement amounts, plus pre- and post-judgment interest of \$77 million, and the Company made that payment in 2015. For a full discussion of these settlement agreements and related litigation, see the "Settlement of Asbestos Direct Action Litigation" section of note 16 of notes to the consolidated financial statements. 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 will be able to sustain these actions against insurers based on novel legal theories of liability. The Company believes it has meritorious defenses to these claims and has received favorable rulings in certain jurisdictions.

On January 29, 2009, the Company and PPG Industries, Inc. (PPG), along with approximately 30 other insurers of PPG, agreed in principle to settle asbestos-related coverage litigation under insurance policies issued to PPG (the "Agreement"). The Agreement was incorporated into the Modified Third Amended Plan of Reorganization ("Amended Plan") proposed as part of the Pittsburgh Corning Corp. (PCC, which is 50% owned by PPG) bankruptcy proceeding. Pursuant to the Amended Plan, which was filed on January 30, 2009, PCC, along with enumerated other companies (including PPG as well as the Company as a participating insurer), receive protections afforded by Section 524(g) of the Bankruptcy Code from certain asbestos-related bodily injury claims. Under the Agreement, the Company had the option to make a series of payments over 20 years totaling approximately \$620 million to the trust created under the Amended Plan, or it could elect to make a discounted payment. On January 7, 2016, the remaining objections to the Amended Plan were dismissed. On April 27, 2016, the Amended Plan became effective and all the remaining conditions to the Agreement were satisfied. The Company fully satisfied its obligation under the Agreement by making a discounted payment in the second quarter of 2016. The Company's payment totaled \$524 million, of which \$518 million was related to asbestos reserves. The Company's obligations under the Agreement were included in its claims and claim adjustment expense reserves at December 31, 2015.

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; 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.

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In the third quarter of 2016, 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:

continued 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 continued high level of litigation activity; and

continued 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 tendering asbestos claims for the first time, the number of policyholders with open asbestos claims and both gross and net asbestos-related payments declined slightly when compared to 2015. Payments on behalf of policyholders in this category continue to be influenced by the 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, and Assumed Reinsurance and Other categories 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 nor have the Company's evaluations resulted in any way of determining a meaningful average asbestos defense or indemnity payment.

The completion of these reviews and analyses in 2016, 2015 and 2014 resulted in \$225 million, \$224 million and \$250 million increases, respectively, in the Company's net asbestos reserves. In each year, 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 category due to a higher than previously anticipated level of litigation activity surrounding mesothelioma claims. This 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 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.

Net asbestos paid loss and loss expenses in 2016, 2015 and 2014 were \$708 million, \$770 million and \$242 million, respectively. Net payments in 2016 included the payment of the \$518 million settlement amounts related to PPG as described above. Net payments in 2015 included the payment of the \$502 million settlement amounts related to the Settlement of Asbestos Direct Action Litigation as described in more detail in note 16 of notes to the consolidated financial statements. Approximately

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69%, 69% and 8% of total net paid losses in 2016, 2015 and 2014, respectively, related to policyholders with whom the Company had entered into settlement agreements limiting the Company's liability.

The Company categorizes its asbestos reserves as follows:

(at and for the year ended December 31, \$ in millions)	Number of Policyholders		Total Net Paid		Net Asbestos Reserves	
	2016	2015	2016	2015	2016	2015
Policyholders with settlement agreements	11	18	\$ 488	\$ 532	\$ 39	\$ 554
Home office and field office	1,599	1,624	204	220	1,118	1,101
Assumed reinsurance and other			16	18	169	155
Total	1,610	1,642	\$ 708	\$ 770	\$ 1,326	\$ 1,810

The Policyholders with Settlement Agreements category includes structured settlements, coverage in place arrangements and, with respect to TPC, Wellington accounts. Reserves are based on the expected payout for each policyholder under the applicable agreement. Structured settlements are arrangements under which policyholders and/or plaintiffs agree to fixed financial amounts to be paid at scheduled times. Coverage in place arrangements represent agreements with policyholders on specified amounts of coverage to be provided. Payment obligations may be subject to annual maximums and are only made when valid claims are presented. Wellington accounts refer to the 35 defendants that are parties to a 1985 agreement settling certain disputes concerning insurance coverage for their asbestos claims. Many of the aspects of the Wellington agreement are similar to those of coverage in place arrangements in which the parties have agreed on specific amounts of coverage and the terms under which the coverage can be accessed. As discussed above, in 2016 the Company paid a \$518 million settlement related to asbestos-related coverage litigation under insurance policies issued to PPG. That amount had been included in the Policyholders with Settlement Agreements category in the foregoing table at December 31, 2015. As also discussed above, in 2015 the Company paid a \$502 million settlement related to the asbestos direct action litigation.

The Home Office and Field Office category relates to all other policyholders and also includes IBNR reserves and reserves for the costs of defending asbestos-related coverage litigation. IBNR reserves in the Home Office and Field Office category include amounts for new claims and adverse development on existing Home Office and Field Office policyholders, as well as reserves for claims from policyholders reporting asbestos claims for the first time and for policyholders for which there is, or may be, litigation. Policyholders are identified for the annual home office review based upon, among other factors: a combination of past payments and current case reserves in excess of a specified threshold (currently \$100,000), perceived level of exposure, number of reported claims, products/completed operations and potential "non-product" exposures, size of policyholder and geographic distribution of products or services sold by the policyholder. The Assumed Reinsurance and Other category primarily consists of reinsurance of excess coverage, including various pool participations.

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

(at and for the year ended December 31, in millions)	2016	2015	2014
Beginning reserves:			
Gross	\$ 1,989	\$ 2,520	\$ 2,606
Ceded	(179)	(163)	(256)
Net	1,810	2,357	2,350
Incurred losses and loss expenses:			
Gross	355	313	258
Ceded	(130)	(89)	(8)
Net	225	224	250
Paid loss and loss expenses:			
Gross	831	843	343
Ceded	(123)	(73)	(101)
Net	708	770	242
Foreign exchange and other:			
Gross	(1)	(1)	(1)
Ceded			
Net	(1)	(1)	(1)
Ending reserves:			
Gross	1,512	1,989	2,520
Ceded	(186)	(179)	(163)
Net	\$ 1,326	\$ 1,810	\$ 2,357

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. Mostly, these claims are due to various legislative as well as regulatory efforts aimed at environmental remediation. For instance, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), enacted in 1980 and later modified, enables private parties as well as federal and state governments to take action with respect to releases and threatened releases of hazardous substances. This federal statute permits the recovery of response costs from some liable parties and may require liable parties to undertake their own remedial action. Liability under CERCLA may be joint and several with other responsible parties.

The Company has 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.

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This form of settlement is commonly referred to as a "buy-back" of policies for future environmental liability. In addition, many of the agreements have also extinguished any insurance obligation which the Company may have for other claims, including but not limited to asbestos and other cumulative injury claims. The Company and its policyholders may also agree to settlements which extinguish any liability arising from known specified sites or claims. Where appropriate, 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. The evaluation of the exposure presented by a policyholder can change as information concerning that policyholder and the many variables presented is developed. Conventional actuarial methods are not used to estimate these reserves.

In its review of environmental reserves, the Company considers: past settlement payments; changing judicial and legislative trends; its reserves for the costs of litigating environmental coverage matters; the potential for policyholders with smaller exposures to be named in new clean-up actions for both on-and off-site waste disposal activities; the potential for adverse development; the potential for additional new claims beyond previous expectations; and the potential higher costs for new settlements.

The duration of the Company's investigation and review of these claims and the extent of time necessary to determine an appropriate estimate, if any, of the value of the claim to the Company vary significantly and are dependent upon a number of factors. These factors include, but are not limited to, the cooperation of the policyholder in providing claim information, the pace of underlying litigation or claim processes, the pace of coverage litigation between the policyholder and the Company and the willingness of the policyholder and the Company to negotiate, if appropriate, a resolution of any dispute pertaining to these claims. Because these factors vary from claim-to-claim and policyholder-by-policyholder, the Company cannot provide a meaningful average of the duration of an environmental claim. However, based upon the Company's experience in resolving these claims, the duration may vary from months to several years.

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 has been greater than anticipated, driven by claims and legal developments in a limited number of jurisdictions. As a result of these factors, in 2016, 2015 and 2014, the Company increased its net environmental reserves by \$82 million, \$72 million and \$87 million, respectively.

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Net environmental paid loss and loss expenses were \$61 million, \$55 million and \$84 million in 2016, 2015 and 2014, respectively. At December 31, 2016, approximately 93% of the net environmental reserve (approximately \$354 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 7% of the net environmental reserve (approximately \$28 million), consists of case reserves.

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

(at and for the year ended December 31, in millions)	2016	2015	2014
Beginning reserves:			
Gross	\$ 375	\$ 353	\$ 355
Ceded	(14)	(7)	(11)
Net	361	346	344
Incurred losses and loss expenses:			
Gross	87	81	94
Ceded	(5)	(9)	(7)
Net	82	72	87
Paid loss and loss expenses:			
Gross	67	56	95
Ceded	(6)	(1)	(11)
Net	61	55	84
Foreign exchange and other:			
Gross		(3)	(1)
Ceded		1	
Net		(2)	(1)
Ending reserves:			
Gross	395	375	353
Ceded	(13)	(14)	(7)
Net	\$ 382	\$ 361	\$ 346

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. The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in complex litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in the cost to resolve, and/or the number of, asbestos and environmental claims beyond that which is anticipated, the emergence of a greater number of asbestos claims than anticipated as a result of extended life expectancies resulting from medical advances and lifestyle improvements, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of disputes pertaining to the amount of available coverage for asbestos and environmental

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claims in a manner inconsistent with the Company's previous assessment of these claims, the number and outcome of direct actions against the Company, future developments pertaining to the Company's ability to recover reinsurance for asbestos and environmental claims and the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers. In addition, uncertainties arise from the insolvency or bankruptcy of policyholders and other defendants. It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development of asbestos and environmental claims. This environment could be affected by 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. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos and environmental reserves, the Company continues to study the implications of these and other developments.

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

INVESTMENT PORTFOLIO

The Company's invested assets at December 31, 2016 were \$70.49 billion, of which 93% was invested in fixed maturity and short-term investments, 1% in equity securities, 1% in real estate investments and 5% 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 December 31, 2016 was \$60.52 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 December 31, 2016 and 2015. Below investment grade securities represented 2.9% and 2.8% of the total fixed maturity investment portfolio at December 31, 2016 and 2015, respectively. The average effective duration of fixed maturities and short-term securities was 4.2 (4.5 excluding short-term securities) at December 31, 2016 and 3.9 (4.2 excluding short-term securities) at December 31, 2015.

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The carrying values of investments in fixed maturities classified as available for sale at December 31, 2016 and 2015 were as follows:

(at December 31, in millions)	Carrying Value	2016 Average Credit Quality(1)	Carrying Value	2015 Average Credit Quality(1)
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,035	Aaa/Aa1	\$ 2,194	Aaa/Aa1
Obligations of states, municipalities and political subdivisions:				
Local general obligation	14,044	Aaa/Aa1	13,318	Aaa/Aa1
Revenue	10,978	Aaa/Aa1	9,960	Aaa/Aa1
State general obligation	1,731	Aaa/Aa1	2,073	Aa1
Pre-refunded	5,157	Aaa/Aa1	6,060	Aa1
Total obligations of states, municipalities and political subdivisions	31,910		31,411	
Debt securities issued by foreign governments	1,662	Aaa/Aa1	1,873	Aaa/Aa1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,708	Aa2	1,981	Aa3
All other corporate bonds and redeemable preferred stock:				
Financial:				
Bank	2,606	A1	2,637	A1
Insurance	678	A1	623	A1
Finance/leasing	35	Ba3	42	Ba2
Brokerage and asset management	32	A1	34	A1
Total financial	3,351		3,336	
Industrial	14,067	A3	14,151	A3
Public utility	2,370	A2	2,311	A3
Canadian municipal securities	1,093	Aa1	1,085	Aa1
Sovereign corporate securities(2)	552	Aaa	696	Aaa
Commercial mortgage-backed securities and project loans(3)	938	Aaa	865	Aaa
Asset-backed and other	829	Aa2	755	Aa2
Total all other corporate bonds and redeemable preferred stock	23,200		23,199	
Total fixed maturities	\$ 60,515	Aa2	\$ 60,658	Aa2

(1) Rated using external rating agencies or by the Company when a public rating does not exist.

(2) Sovereign corporate securities include corporate securities that are backed by a government and include sovereign banks and securities issued under the Federal Ship Financing Programs.

(3) Included in commercial mortgage-backed securities and project loans at December 31, 2016 and 2015 were \$285 million and \$295 million of securities guaranteed by the U.S. government, respectively, and \$5 million and \$8 million of securities guaranteed by government sponsored enterprises, respectively.

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The following table sets forth the Company's fixed maturity investment portfolio rated using external ratings agencies or by the Company when a public rating does not exist:

(at December 31, 2016, in millions)	Carrying Value	Percent of Total Carrying Value
Quality Rating:		
Aaa	\$ 25,795	42.6%
Aa	17,456	28.9
A	8,368	13.8
Baa	7,139	11.8
Total investment grade	58,758	97.1
Below investment grade	1,757	2.9
Total fixed maturities	\$ 60,515	100.0%

The amortized cost and fair value of fixed maturities by contractual maturity follow. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(at December 31, 2016, in millions)	Amortized Cost	Fair Value
Due in one year or less	\$ 5,619	\$ 5,677
Due after 1 year through 2 years	4,373	4,492
Due after 2 years through 3 years	4,593	4,751
Due after 3 years through 4 years	3,379	3,481
Due after 4 years through 5 years	4,072	4,202
Due after 5 years through 10 years	14,258	14,449
Due after 10 years	21,742	21,755
	58,036	58,807
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,614	1,708
Total	\$ 59,650	\$ 60,515

Obligations of States, Municipalities and Political Subdivisions

The Company's fixed maturity investment portfolio at December 31, 2016 and 2015 included \$31.91 billion and \$31.41 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 December 31, 2016 and 2015 were \$5.16 billion and \$6.06 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, which were created to satisfy their responsibility for payments of principal and interest. 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.

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The following table shows the geographic distribution of the \$26.75 billion of municipal bonds at December 31, 2016 that were not pre-refunded.

(at December 31, 2016, in millions)	State General Obligation	Local General Obligation	Revenue	Total Carrying Value	Average Credit Quality(1)
State:					
Texas	\$ 112	\$ 2,570	\$ 983	\$ 3,665	Aaa
Washington	128	1,131	532	1,791	Aa1
Virginia	73	769	900	1,742	Aaa/Aa1
Minnesota	128	1,065	337	1,530	Aaa/Aa1
North Carolina	105	754	464	1,323	Aaa/Aa1
California	29	753	488	1,270	Aaa/Aa1
Massachusetts	43	58	1,057	1,158	Aaa/Aa1
New York	11	85	818	914	Aaa/Aa1
Maryland	68	634	196	898	Aaa/Aa1
Colorado		628	259	887	Aa1
South Carolina	59	545	162	766	Aa1
Wisconsin	169	345	208	722	Aa1
Georgia	70	475	159	704	Aaa/Aa1
Arizona		383	315	698	Aa1
All others(2)	736	3,849	4,100	8,685	Aaa/Aa1
Total	\$ 1,731	\$ 14,044	\$ 10,978	\$ 26,753	Aaa/Aa1

(1) Rated using external rating agencies or by the Company when a public rating does not exist. Ratings shown are the higher of the rating of the underlying issuer or the insurer in the case of securities enhanced by third-party insurance for the payment of principal and interest in the event of issuer default.

(2) No other single state accounted for 2.5% or more of the total non-pre-refunded municipal bonds.

The following table displays the funding sources for the \$10.98 billion of municipal bonds identified as revenue bonds in the foregoing table at December 31, 2016.

(at December 31, 2016, in millions)	Carrying Value	Average Credit Quality(1)
Source:		
Water and sewer	\$ 4,419	Aaa/Aa1
Higher education	2,671	Aaa/Aa1
Power and utilities	878	Aa2
Transportation	875	Aa1
Special tax	557	Aa1
Healthcare	164	Aa2
Housing	94	Aaa/Aa1
Lease	45	Aa3
Property tax	11	Aa2
Other revenue sources	1,264	Aaa/Aa1
Total	\$ 10,978	Aaa/Aa1

(1)

Rated using external rating agencies or by the Company when a public rating does not exist. Ratings shown are the higher of the rating of the underlying issuer or the insurer in the case of securities enhanced by third-party insurance for the payment of principal and interest in the event of issuer default.

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The Company bases its investment decision on the underlying credit characteristics of the municipal security. While its municipal bond portfolio includes a number of securities that were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default, the Company does not rely on enhanced credit characteristics provided by such third-party insurance as part of its investing decisions. Of the insured municipal securities in the Company's investment portfolio at December 31, 2016, approximately 99% were rated at "A3" or above, and approximately 96% were rated at "Aa3" or above, without the benefit of insurance. The Company believes that a loss of the benefit of insurance would not result in a material adverse impact on the Company's results of operations, financial position or liquidity, due to the underlying credit strength of the issuers of the securities, as well as the Company's ability and intent to hold the securities. The average credit rating of the underlying issuers of these securities was "Aa2" at December 31, 2016. The average credit rating of the entire municipal bond portfolio was "Aa1" at December 31, 2016, with and without the enhancement provided by third-party insurance.

Debt Securities Issued by Foreign Governments

The following table shows the geographic distribution of the Company's long-term fixed maturity investments in debt securities issued by foreign governments at December 31, 2016.

(at December 31, 2016, in millions)	Carrying Value	Average Credit Quality(1)
Foreign Government:		
Canada	\$ 1,055	Aaa
United Kingdom	557	Aa2
All Others(2)(3)	50	A3
Total	\$ 1,662	Aaa/Aa1

-
- (1) Rated using external rating agencies or by the Company when a public rating does not exist.
- (2) The Company does not have direct exposure to sovereign debt issued by the Republic of Ireland, Italy, Greece, Portugal or Spain.
- (3) No other country accounted for 2.5% or more of total debt securities issued by foreign governments.

The following table shows the Company's Eurozone exposure at December 31, 2016 to all debt securities issued by foreign governments, financial companies, sovereign corporations (including sovereign banks) whose securities are backed by the respective country's government and all other corporate securities (comprised of industrial corporations and utility companies) which could be affected if economic conditions deteriorated due to a prolonged recession.

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(at December 31, 2016, in millions)	Debt Securities Issued by Foreign Governments		Financial		Corporate Securities		All Other	
	Carrying Value	Average Credit Quality(1)	Carrying Value	Average Credit Quality(1)	Carrying Value	Average Credit Quality(1)	Carrying Value	Average Credit Quality(1)
Eurozone Periphery								
Spain	\$		\$ 54	A2	\$		\$ 16	Baa2
Ireland							73	Baa1
Greece								
Italy								
Portugal								
Subtotal			54				89	
Eurozone Non-Periphery								
Germany			14	Baa1	132	Aaa/Aa1	335	A3
France	50	Aa2	11	A2	2	Aa1	444	A2
Netherlands			91	A1	117	Aaa/Aa1	332	A2
Austria					95	Aa2		
Finland	2	Aa1			2	Aa1		
Belgium							200	Baa1
Luxembourg							1	Ba2
Subtotal	52		116		348		1,312	
Total	\$ 52		\$ 170		\$ 348		\$ 1,401	

(1)

Rated using external rating agencies or by the Company when a public rating does not exist. The table includes \$350 million of short-term securities which have the highest ratings issued by external rating agencies for short-term issuances. For purposes of this table, the short-term securities, which are rated "A-1+" and/or "P-1," are included as "Aaa" rated securities.

In addition to fixed maturities noted in the foregoing table, the Company has exposure totaling \$146 million to private equity limited partnerships and real estate partnerships (both of which are included in other investments in the Company's consolidated balance sheet) whose primary investing focus is across Europe. The Company has unfunded commitments totaling \$113 million to these partnerships. The Company also has \$4 million of non-redeemable preferred stock (included in equity securities on the Company's consolidated balance sheet) issued by companies in the Eurozone.

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

The Company's fixed maturity investment portfolio at December 31, 2016 and 2015 included \$1.71 billion and \$1.98 billion, respectively, of residential mortgage-backed securities, including 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. The Company makes investments in residential CMOs that are either guaranteed by GNMA, FNMA or FHLMC, or if not guaranteed, are senior or super-senior positions within their respective securitizations. Both guaranteed and non-guaranteed residential CMOs allocate the distribution of payments from the underlying mortgages among different classes of bondholders. In addition, non-guaranteed residential CMOs provide structures that allocate the impact of credit losses to different classes of bondholders. Senior and super-senior CMOs are protected, to varying degrees,

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from credit losses as those losses are initially allocated to subordinated bondholders. The Company's investment strategy is to purchase CMO tranches that are expected to offer the most favorable return given the Company's assessment of associated risks. The Company does not purchase residual interests in CMOs. For more information regarding the Company's investments in residential mortgage-backed securities, see note 3 of notes to the consolidated financial statements.

Alternative Documentation Mortgages and Sub-Prime Mortgages

At December 31, 2016 and 2015, the Company's fixed maturity investment portfolio included CMOs backed by alternative documentation mortgages and asset-backed securities collateralized by sub-prime mortgages with a collective fair value of \$142 million and \$185 million, respectively (comprising less than 1% of the Company's total fixed maturity investments at both dates). The Company defines sub-prime mortgage-backed securities as investments in which the underlying loans primarily exhibit one or more of the following characteristics: low FICO scores, above-prime interest rates, high loan-to-value ratios or high debt-to-income ratios. Alternative documentation securitizations are those in which the underlying loans primarily meet the government-sponsored entities' requirements for credit score but do not meet the government-sponsored entities' guidelines for documentation, property type, debt and loan-to-value ratios. The average credit rating on these securities and obligations held by the Company was "Ba3" and "Ba2" at December 31, 2016 and 2015, respectively. The Company does not believe this portfolio exposes it to a material adverse impact on its results of operations, financial position or liquidity, due to the portfolio's relatively small size.

Commercial Mortgage-Backed Securities and Project Loans

At December 31, 2016 and 2015, the Company held commercial mortgage-backed securities (including FHA project loans) of \$938 million and \$865 million, respectively. The Company does not believe this portfolio exposes it to a material adverse impact on its results of operations, financial position or liquidity, due to the portfolio's relatively small size and the underlying credit strength of these securities. For more information regarding the Company's investments in commercial mortgage-backed securities, see note 3 of notes to the consolidated financial statements.

Equity Securities Available for Sale, Real Estate and Short-Term Investments

See note 1 of notes to the consolidated financial statements for further information about these invested asset classes.

Other Investments

The Company also invests in private equity limited partnerships, hedge funds, and real estate partnerships. 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 both December 31, 2016 and 2015, the carrying value of the Company's other investments was \$3.45 billion.

Securities Lending

The Company has engaged in securities lending activities from which it generates net investment income by lending certain of its investments to other institutions for short periods of time. At December 31, 2016 and 2015, the Company had \$286 million and \$269 million of securities on loan, respectively, as part of a tri-party lending agreement. The average monthly balance of securities on loan during 2016 and 2015 was \$346 million and \$268 million, respectively. Borrowers of these securities provide collateral equal to at least 102% of the market value of the loaned securities plus accrued

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interest. The Company has not incurred any investment losses in its securities lending program for the years ended December 31, 2016, 2015 and 2014.

Lloyd's Trust Deposit

The Company utilizes a Lloyd's trust deposit, whereby owned securities with a fair value of approximately \$97 million and \$140 million held by a wholly-owned subsidiary at December 31, 2016 and 2015, respectively, were pledged into a Lloyd's trust account to provide a portion of the capital needed to support the Company's obligations at Lloyd's.

Net Unrealized Investment Gains

The net unrealized investment gains that were included as a separate component of accumulated other comprehensive income were as follows:

(at December 31, in millions)	2016	2015	2014
Fixed maturities	\$ 865	\$ 1,780	\$ 2,673
Equity securities	228	177	320
Other investments	19	17	15
Unrealized investment gains before tax	1,112	1,974	3,008
Tax expense	382	685	1,042
Net unrealized investment gains at end of year	\$ 730	\$ 1,289	\$ 1,966

Net unrealized investment gains at December 31, 2016 and 2015 decreased from the respective prior year-ends, primarily reflecting the impact of an increase in market interest rates in 2016 and 2015.

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at December 31, 2016, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

(in millions)	Period For Which Fair Value Is Less Than 80% of Amortized Cost				Total
	3 Months or Less	Greater Than 3 Months, 6 Months or Less	Greater Than 6 Months, 12 Months or Less	Greater Than 12 Months	
Fixed maturities:					
Mortgage-backed securities	\$	\$	\$	\$	\$
Other	1			2	3
Total fixed maturities	1			2	3
Equity securities	1				1
Total	\$ 2	\$	\$	\$ 2	\$ 4

These unrealized investment losses at December 31, 2016 represent less than 1% of the combined fixed maturity and equity security portfolios on a pre-tax basis and less than 1% of shareholders' equity on an after-tax basis.

For fixed maturity investments where fair value is less than the carrying value and the Company did not reach a decision to impair, the Company continues to have the intent and ability to hold such investments to a projected recovery in value, which may not be until maturity.

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At December 31, 2016 and 2015, below investment grade securities comprised 2.9% and 2.8%, respectively, of the Company's fixed maturity investment portfolio. Included in below investment grade

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securities at December 31, 2016 were securities in an unrealized loss position that, in the aggregate, had an amortized cost of \$521 million and a fair value of \$503 million, resulting in a net pre-tax unrealized investment loss of \$18 million. These securities in an unrealized loss position represented approximately 0.9% of the total amortized cost and 0.8% of the fair value of the fixed maturity portfolio at December 31, 2016 and accounted for 3.6% of the total gross pre-tax unrealized investment loss in the fixed maturity portfolio at December 31, 2016.

Impairment Charges

Impairment charges included in net realized investment gains in the consolidated statement of income were as follows:

(for the year ended December 31, in millions)	2016	2015	2014
Fixed maturities			
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$	\$	\$
Obligations of states, municipalities and political subdivisions			
Debt securities issued by foreign governments			
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities			1
All other corporate bonds	15	13	15
Redeemable preferred stock			
Total fixed maturities	15	13	16
Equity securities			
Public common stock	9	37	9
Non-redeemable preferred stock	3		
Total equity securities	12	37	9
Other investments	2	2	1
Total	\$ 29	\$ 52	\$ 26

Following are the pre-tax realized losses on investments sold during the year ended December 31, 2016:

(for the year ended December 31, 2016, in millions)	Loss	Fair Value
Fixed maturities	\$ 20	\$ 562
Equity securities	3	35
Total	\$ 23	\$ 597

Purchases and sales of investments are based on cash requirements, the characteristics of the insurance liabilities and current market conditions. The Company identifies investments to be sold to achieve its primary investment goals of assuring the Company's ability to meet policyholder obligations as well as to optimize investment returns, given these obligations.

CATASTROPHE MODELING

The Company uses various analyses and methods, including proprietary and third-party computer modeling processes, to make underwriting and reinsurance decisions designed to manage its exposure to catastrophic events. There are no industry-standard methodologies or assumptions for projecting catastrophe exposure. Accordingly, catastrophe estimates provided by different insurers may not be comparable.

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The Company actively monitors and evaluates changes in third-party models and, when necessary, calibrates the catastrophe risk model estimates delivered via its own proprietary modeling processes. The Company considers historical loss experience, recent events, underwriting practices, market share analyses, external scientific analysis and various other factors including non-modeled losses to refine its proprietary view of catastrophe risk. These proprietary models are continually updated as new information emerges.

The tables below set forth the probabilities that estimated losses, comprising claims and allocated claim adjustment expenses (but excluding unallocated claim adjustment expenses), from a single event occurring in a one-year timeframe will equal or exceed the indicated loss amounts (expressed in dollars and as a percentage of the Company's common equity), based on the proprietary and third-party computer models utilized by the Company at December 31, 2016. For example, on the basis described below the tables, the Company estimates that there is a one percent chance that the Company's loss from a single U.S. hurricane in a one-year timeframe would equal or exceed \$1.3 billion, or 6% of the Company's common equity at December 31, 2016.

Likelihood of Exceedance(1)	Dollars (in billions)	
	Single U.S. and Canadian Hurricane	Single U.S. and Canadian Earthquake
2.0% (1-in-50)	\$ 0.9	\$ 0.4
1.0% (1-in-100)	\$ 1.3	\$ 0.6
0.4% (1-in-250)	\$ 1.8	\$ 0.9
0.1% (1-in-1,000)	\$ 3.8	\$ 1.6

Likelihood of Exceedance	Percentage of Common Equity(2)	
	Single U.S. and Canadian Hurricane	Single U.S. and Canadian Earthquake
2.0% (1-in-50)	4%	2%
1.0% (1-in-100)	6%	3%
0.4% (1-in-250)	8%	4%
0.1% (1-in-1,000)	17%	7%

(1) An event that has, for example, a 2% likelihood of exceedance is sometimes described as a "1-in-50 year event." As noted above, however, the probabilities in the table represent the likelihood of losses from a single event equaling or exceeding the indicated threshold loss amount in a one-year timeframe, not over a multi-year timeframe. Also, because the probabilities relate to a single event, the probabilities do not address the likelihood of more than one event occurring in a particular period, and, therefore, the amounts do not address potential aggregate catastrophe losses occurring in a one-year timeframe.

(2) The percentage of common equity is calculated by dividing (a) indicated loss amounts in dollars by (b) total common equity excluding net unrealized investment gains and losses, net of taxes. Net unrealized investment gains and losses can be significantly impacted by both discretionary and other economic factors and are not necessarily indicative of operating trends. Accordingly, the Company's management uses the percentage of common equity calculated on this basis as a metric to evaluate the potential impact of a single hurricane or single earthquake on the Company's financial position for purposes of making underwriting and reinsurance decisions.

The threshold loss amounts in the tables above, which are based on the Company's in-force portfolio at December 31, 2016 and catastrophe reinsurance program at January 1, 2017, are net of

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reinsurance, after-tax and exclude unallocated claim adjustment expenses, which historically have been less than 10% of loss estimates. For further information regarding the Company's reinsurance, see "Item 1 Reinsurance." The amounts for hurricanes reflect U.S. and Canadian exposures and include property exposures, property residual market exposures and an adjustment for certain non-property exposures. The hurricane loss amounts are based on the Company's catastrophe risk model estimates and include losses from the hurricane hazards of wind and storm surge. The amounts for earthquakes reflect U.S. and Canadian property and workers' compensation exposures. The Company does not believe that the inclusion of hurricane or earthquake losses arising from other geographical areas or other exposures would materially change the estimated threshold loss amounts.

Catastrophe modeling relies upon inputs based on experience, science, engineering and history. These inputs reflect a significant amount of judgment and are subject to changes which may result in volatility in the modeled output. Catastrophe modeling output may also fail to account for risks that are outside the range of normal probability or are otherwise unforeseeable. Catastrophe modeling assumptions include, among others, the portion of purchased reinsurance that is collectible after a catastrophic event, which may prove to be materially incorrect. Consequently, catastrophe modeling estimates are subject to significant uncertainty. In the tables above, the uncertainty associated with the estimated threshold loss amounts increases significantly as the likelihood of exceedance decreases. In other words, in the case of a relatively more remote event (e.g., 1-in-1,000), the estimated threshold loss amount is relatively less reliable. Actual losses from an event could materially exceed the indicated threshold loss amount. In addition, more than one such event could occur in any period.

Moreover, the Company is exposed to the risk of material losses from other than property and workers' compensation coverages arising out of hurricanes and earthquakes, and it is exposed to catastrophe losses from perils other than hurricanes and earthquakes, such as tornadoes and other windstorms, hail, wildfires, severe winter weather, floods, tsunamis, volcanic eruptions and other naturally-occurring events, such as solar flares, as well as acts of terrorism and cyber-risk.

For more information about the Company's exposure to catastrophe losses, see "Item 1A Risk Factors Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance" and "Item 1A Risk Factors We may be adversely affected if our pricing and capital models provide materially different indications than actual results."

CHANGING CLIMATE CONDITIONS

Severe weather events over the last two decades have underscored the unpredictability of future climate trends and created uncertainty regarding insurers' exposures to financial loss as a result of catastrophes and other weather-related events. For example, hurricane and storm surge activity have impacted areas further inland than previously experienced, and demographic changes have resulted in larger populations in coastal areas which historically have been subject to severe storms, thus expanding the Company's potential for losses from hurricanes. Additionally, both the frequency and severity of tornado and hail storms in the United States have been more volatile during the last decade. Accordingly, the Company may be subject to increased losses from catastrophes and other weather-related events. Additionally, the Company's catastrophe models may be less reliable due to the increased unpredictability in frequency and severity of severe weather events or other emerging trends in climate conditions.

The Company discusses how potentially changing climate conditions may present other issues for its business under "Risk Factors" in Item 1A of this report and under " Outlook." For example, among other things:

Increasingly unpredictable and severe weather conditions could result in increased frequency and severity of claims under policies issued by the Company. See "Risk Factors Catastrophe losses

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could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance" and " Outlook Underwriting Gain/Loss."

Changing climate conditions could also impact the creditworthiness of issuers of securities in which the Company invests. For example, water supply adequacy could impact the creditworthiness of bond issuers in the Southwestern United States, and more frequent and/or severe hurricanes could impact the creditworthiness of issuers in the Southeastern United States, among other areas. See "Risk Factors Our investment portfolio is subject to credit and interest rate risk, and may suffer reduced returns or material realized or unrealized losses."

Increased regulation adopted in response to potential changes in climate conditions may impact the Company and its customers. For example, state insurance regulation could impact the Company's ability to manage property exposures in areas vulnerable to significant climate driven losses. If the Company is unable to implement risk based pricing, modify policy terms or reduce exposures to the extent necessary to address rising losses related to catastrophes and smaller scale weather events (should those increased losses occur), its business may be adversely affected. See "Risk Factors Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance." In addition, climate change regulation could increase the Company's customers' costs of doing business. For example, insureds faced with carbon management regulatory requirements may have less available capital for investment in loss prevention and safety features which may, over time, increase loss exposures. Increased regulation may also result in reduced economic activity, which would decrease the amount of insurable assets and businesses.

The full range of potential liability exposures related to climate change continues to evolve. Through the Company's Emerging Issues Committee and its Committee on Climate, Energy and the Environment, the Company works with its business units and corporate groups, as appropriate, to identify and try to assess climate change-related liability issues, which are continually evolving and often hard to fully evaluate. The Company regularly reviews emerging issues, including changing climate conditions, to consider potential changes to its modeling and the use of such modeling, as well as to help determine the need for new underwriting strategies, coverage modifications or new products. See "Risk Factors The effects of emerging claim and coverage issues on our business are uncertain."

REINSURANCE RECOVERABLES

The Company reinsures a portion of the risks it underwrites in order to control its exposure to losses. For additional discussion regarding the Company's reinsurance coverage, see "Part I Item 1 Reinsurance."

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

(at December 31, in millions)	2016	2015
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	\$ 3,181	\$ 3,848
Allowance for uncollectible reinsurance	(116)	(157)
Net reinsurance recoverables	3,065	3,691
Mandatory pools and associations	2,054	2,015
Structured settlements	3,168	3,204
Total reinsurance recoverables	\$ 8,287	\$ 8,910

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The \$626 million decline in net reinsurance recoverables from December 31, 2015 primarily reflected the impact of cash collections in 2016, including the settlement of a reinsurance dispute which is discussed in more detail in note 16 of notes to the consolidated financial statements.

The following table presents the Company's top five reinsurer groups by reinsurance recoverable at December 31, 2016 (in millions). Also included is the A.M. Best rating of each reinsurer group at February 16, 2017:

Reinsurer Group	Reinsurance Recoverable	A.M. Best Rating of Group's Predominant Reinsurer
Swiss Re Group	\$ 367	A+ second highest of 16 ratings
Berkshire Hathaway	245	A++ highest of 16 ratings
Sompo Japan Nipponkoa Group	205	A+ second highest of 16 ratings
Munich Re Group	185	A+ second highest of 16 ratings
XL Capital Group	145	A third highest of 16 ratings

At December 31, 2016, the Company held \$1.0 billion of collateral in the form of letters of credit, funds and trust agreements held to fully or partially collateralize certain reinsurance recoverables.

Included in reinsurance recoverables are amounts related to structured settlements, which are annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where the Company did not receive a release from the claimant, the amount due from the life insurance company related to the structured settlement is included in the Company's consolidated balance sheet as a reinsurance recoverable and the related claim cost is included in the liability for claims and claim adjustment expense reserves, as the Company retains the contingent liability to the claimant. If it is expected that the life insurance company is not able to pay, the Company would recognize an impairment of the related reinsurance recoverable if, and to the extent, the purchased annuities are not covered by state guaranty associations. In the event that the life insurance company fails to make the required annuity payments, the Company would be required to make such payments. The following table presents the Company's top five groups by structured settlements at December 31, 2016 (in millions). Also included is the A.M. Best rating of the Company's predominant insurer from each insurer group at February 16, 2017:

Group	Structured Settlements	A.M. Best Rating of Group's Predominant Insurer
Fidelity & Guaranty Life Group(1)	\$ 881	B++ fifth highest of 16 ratings
MetLife Group(2)	390	A third highest of 16 ratings
Genworth Financial Group(3)	378	B++ fifth highest of 16 ratings
John Hancock Group	295	A+ second highest of 16 ratings
Symetra Financial Corporation	267	A third highest of 16 ratings

- (1) Fidelity & Guaranty Life (FGL) has entered into a definitive merger agreement with Anbang Insurance Group Co., Ltd. whereby Anbang will acquire all of the outstanding shares of FGL. Regulatory approvals are still in progress. A.M. Best's ratings of FGL were placed under review with developing implications following the announcement of the merger agreement. The Company does not have any structured settlements with Anbang.
- (2) MetLife Inc. previously announced a plan to pursue the separation of a substantial portion of its U.S. Retail segment into an entity to be named Brighthouse Financial, Inc. Brighthouse will include MetLife Insurance Company USA, which holds the majority of the structured settlement annuities that the Company has with MetLife. On October 7, 2016, A.M. Best downgraded

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MetLife Insurance Company USA's financial strength rating to A (Excellent) from A+ (Superior), with a stable outlook.

(3)

On October 23, 2016, Genworth Financial (Genworth) announced that they have entered into a definitive agreement under which China Oceanwide Holdings Group Co., Ltd. (China Oceanwide) has agreed to acquire all of the outstanding shares of Genworth. The transaction, which has been approved by both companies' boards of directors, is expected to close by the middle of 2017, subject to the requisite approval by Genworth's stockholders as well as certain other closing conditions, including the receipt of regulatory approvals. China Oceanwide is a privately held, family owned international financial holding group headquartered in Beijing, China. Following the announcement A.M. Best affirmed the financial strength rating of Genworth Life & Annuity Insurance Company at B++ (Good), and downgraded Genworth Life Insurance Company and Genworth Life Insurance Company of New York from B++ (Good) to B (Fair) and placed all ratings under review with negative implications.

The Company considers the ratings and related outlook assigned to reinsurance companies and life insurance companies by various independent ratings agencies in assessing the adequacy of its allowance for uncollectible amounts.

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 and International Insurance, affect audit premium adjustments, policy endorsements and mid-term cancellations. Property and casualty insurance market conditions are expected to remain competitive. Net written premiums may also be impacted by the structure of reinsurance programs and related costs, as well as changes in foreign currency exchange rates.

Overall, the Company expects retention levels (the amount of expiring premium that renews, before the impact of renewal premium changes) will remain strong by historical standards during 2017. In Business and International Insurance, the Company expects that domestic renewal premium changes during 2017 will remain positive and will be broadly consistent with the levels attained in 2016. 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 during 2017 could be somewhat higher, broadly consistent with or somewhat lower than the levels attained in 2016. In Bond & Specialty Insurance, the Company expects that renewal premium changes with respect to management liability business during 2017 will remain positive, but will be lower than the levels attained in 2016. With respect to surety business within Bond & Specialty Insurance, the Company expects that net written premium volume during 2017 will be slightly higher than the level attained in 2016. In Personal Insurance, the Company expects that Agency Auto renewal premium changes during 2017 will remain positive and will be higher than the levels attained in 2016, and Agency Homeowners and Other renewal premium changes during 2017 will remain positive and will be broadly consistent with the levels attained in 2016. The need for state regulatory approval for

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changes to personal property and casualty insurance prices, as well as competitive market conditions, may impact the timing and extent of renewal premium changes.

Property and casualty insurance market conditions are expected to remain competitive during 2017 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 in the short-term.

General economic and geopolitical uncertainty regarding a variety of domestic and international matters, such as the political and regulatory environment, the U.S. Federal budget and potential changes in tax laws in the United States, the repeal, replacement or modification of the Affordable Care Act, economic uncertainty in the United States and in various parts of the world, the United Kingdom's expected withdrawal from the European Union, rapid changes in commodity prices, such as in oil, and fluctuations in interest rates and foreign currency exchange rates, has added to the uncertainty regarding economic conditions generally. If economic conditions deteriorate, the resulting lower levels of economic activity could impact exposure changes at renewal and the Company's ability to write business at acceptable rates. Additionally, lower levels of economic activity could adversely impact audit premium adjustments, policy endorsements and mid-term cancellations after policies are written. All of the foregoing, in turn, could adversely impact net written premiums in 2017, and because earned premiums are a function of net written premiums, earned premiums could be adversely 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.

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

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

It is possible that changes in economic conditions could lead to higher inflation than the Company had anticipated, which could in turn lead to an increase in the Company's loss costs and the need to strengthen 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 are considered "long tail", such as general liability, as they require a relatively long period of time to finalize and settle claims for a given accident year. For a further discussion, see "Part I Item 1A Risk Factors If actual claims exceed our claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal, regulatory and economic environments in which the Company operates, our financial results could be materially and adversely affected," and "Changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate could adversely impact us."

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In Business and International Insurance, the Company expects underlying underwriting margins and the underlying combined ratio during 2017 will be broadly consistent with those in 2016, reflecting the impact of loss trends in excess of earned pricing, largely offset by lower (and more normalized) levels of non-catastrophe weather-related losses.

In Bond & Specialty Insurance, the Company expects underlying underwriting margins and the underlying combined ratio during 2017 will be broadly consistent with those in 2016.

In Personal Insurance, the Company expects underlying underwriting margins during 2017 will be slightly higher than in 2016 and the underlying combined ratio during 2017 will be broadly consistent with 2016. In Agency Automobile, the Company expects that underlying underwriting margins and the underlying combined ratio will improve in 2017 compared with 2016, reflecting actions taken to improve profitability that will earn in increasingly throughout the year. In Agency Homeowners and Other, the Company expects that underlying underwriting margins will be slightly lower and the underlying combined ratio will be slightly higher in 2017 than in the 2016, reflecting higher (and more normalized) levels of loss activity. Also in Personal Insurance, the Company's direct to consumer initiative, the distribution channel that the Company launched in 2009, while intended to enhance the Company's long-term ability to compete successfully in a consumer-driven marketplace, is expected to remain modest with respect to premium volume and remain unprofitable for a number of years as this book of business grows and matures.

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 average effective duration of fixed maturities and short-term securities was 4.2 (4.5 excluding short-term securities) at December 31, 2016. 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 December 31, 2016, the Company had \$400 million notional value of 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. Although interest rates increased in the latter part of 2016, they remain at very low levels by historical standards. Based on the current interest rate environment, the Company estimates that the impact of lower reinvestment yields, partially offset by the impact of a slightly higher level of fixed maturity investments, could, during 2017, result in approximately \$15 million to \$20 million of lower after-tax net investment income from that portfolio on a quarterly basis as compared to the corresponding quarters of 2016. Net investment income from the non-fixed maturity investment portfolio in 2016 was higher than in 2015. The impact of future market conditions on net investment income from the non-fixed maturity investment portfolio during 2017 is hard to predict. If general economic conditions and/or investment market conditions deteriorate during 2017, the Company could experience a reduction in net investment income and/or significant realized investment losses, including impairments.

The Company had a net pre-tax unrealized investment gain of \$865 million (\$569 million after-tax) in its fixed maturity investment portfolio at December 31, 2016. While the Company does not attempt to predict future interest rate movements, a rising interest rate environment would reduce the market value of fixed maturity investments and, therefore, reduce shareholders' equity, and a declining interest rate environment would have the opposite effects. The Company's investment portfolio has benefited

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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."

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 returns or material realized or unrealized losses" included in "Part I Item 1A Risk Factors." 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" and see "Part II Item 7A Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Exchange Rate Risk."

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 operating 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, 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 2016, 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. 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."

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" and "Critical Accounting Estimates."

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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. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The insurance subsidiaries' liquidity requirements can be impacted by, among other factors, the timing and amount of catastrophe claims, which are inherently unpredictable, as well as the timing and amount of reinsurance recoveries, which may be affected by reinsurer solvency and reinsurance coverage disputes. Additionally, the variability of asbestos-related claim payments, as well as the volatility of potential judgments and settlements arising out of litigation, may also result in increased liquidity requirements. It is the opinion of the Company's management that the insurance subsidiaries' future liquidity needs will be adequately met from all of the sources described above. Subject to restrictions imposed by states in which the Company's insurance subsidiaries are domiciled, the Company's principal insurance subsidiaries pay dividends to their respective parent companies, which in turn pay dividends to the corporate holding (parent) company (TRV). For further information regarding restrictions on dividends paid by the Company's insurance subsidiaries, see "Part I Item 1 Regulation."

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 December 31, 2016, TRV held total cash and short-term invested assets in the United States aggregating \$1.68 billion and having a weighted average maturity of 81 days. TRV has established a holding company liquidity target equal to its estimated annual pre-tax interest expense and common shareholder dividends (currently approximately \$1.1 billion). TRV's holding company liquidity of \$1.68 billion at December 31, 2016 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. U.S. income taxes have not been recognized on \$358 million of the Company's foreign operations' undistributed earnings as of December 31, 2016, as such earnings are intended to be permanently reinvested in those operations. Furthermore, taxes paid to foreign governments on these earnings may be used as credits against the U.S. tax on dividend distributions if such earnings were to be distributed to the holding company. The amount of undistributed earnings from foreign operations and related taxes on those undistributed earnings were not material to the Company's financial position or liquidity at December 31, 2016.

TRV has a shelf registration statement filed with the Securities and Exchange Commission that expires on June 17, 2019 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 7, 2018. This line of credit also supports TRV's \$800 million commercial paper program, of which \$100 million was outstanding at December 31, 2016. 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 \$179 million, to provide a portion of the capital needed to support its obligations at Lloyd's at December 31, 2016. 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.

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On December 15, 2017, the Company's \$450 million, 5.75% senior notes will mature. The Company may refinance this maturing debt through funds generated internally or, depending on market conditions, through funds generated externally.

Operating Activities

Net cash flows provided by operating activities were \$4.20 billion, \$3.43 billion and \$3.69 billion in 2016, 2015 and 2014, respectively. Cash flows in 2016 reflected higher levels of collected premiums, proceeds from the settlement of a reinsurance dispute as discussed in more detail in note 16 of notes to the consolidated financial statements and lower income tax payments, partially offset by higher levels of payments for claims and claim adjustment expenses, general and administrative expenses and commission expenses. The higher level of payments for claims and claim adjustment expenses in 2016 included the Company's \$524 million payment related to the settlement of the PPG Industries, Inc. litigation as described in more detail in the "Asbestos Claims and Litigation" section. Cash flows in 2015 included the Company's \$579 million payment related to the settlement of the Asbestos Direct Action Litigation as described in more detail in note 16 of notes to the consolidated financial statements and a lower level of net investment income, partially offset by a higher level of collected premiums and a lower contribution to the Company's qualified domestic pension plan. Cash flows in 2014 primarily reflected higher levels of payments for claims and claim adjustment expenses, general and administrative expenses and commission expenses, as well as higher income tax payments, partially offset by higher levels of collected premiums. These increases in 2014 included the impact of the Company's acquisition of The Dominion of Canada General Insurance Company (Dominion). In 2016, 2015 and 2014, the Company voluntarily made contributions totaling \$200 million, \$100 million and \$200 million, respectively, to its qualified domestic pension plan. The qualified domestic pension plan was 101% and 96% funded at December 31, 2016 and 2015, respectively.

Investing Activities

Net cash used in investing activities was \$1.46 billion in 2016, compared with net cash provided by investing activities of \$317 million and \$206 million in 2015 and 2014, respectively. The Company's consolidated total investments at December 31, 2016 increased by \$18 million, or less than 1% from year-end 2015, primarily reflecting net cash flows provided by operating activities, largely offset by common share repurchases, a decrease in the unrealized appreciation of investments and dividends paid to shareholders. The Company's consolidated total investments at December 31, 2015 decreased by \$2.79 billion, or 4% from year-end 2014, primarily reflecting a decrease in the unrealized appreciation of investments, common share repurchases and dividends paid to shareholders, partially offset by net cash flows provided by operating activities.

The Company's investment portfolio is managed to support its insurance operations; accordingly, the portfolio is positioned to meet obligations to policyholders. As such, the primary goals of the Company's asset-liability management process are to satisfy the insurance liabilities and maintain sufficient liquidity to cover fluctuations in projected liability cash flows. Generally, the expected principal and interest payments produced by the Company's fixed maturity portfolio adequately fund the estimated runoff of the Company's insurance reserves. Although this is not an exact cash flow match in each period, the substantial amount by which the market value of the fixed maturity portfolio exceeds the value of the net insurance liabilities, as well as the positive cash flow from newly sold policies and the large amount of high quality liquid bonds, contributes to the Company's ability to fund claim payments without having to sell illiquid assets or access credit facilities.

Financing Activities

Net cash flows used in financing activities were \$2.81 billion, \$3.73 billion and \$3.81 billion in 2016, 2015 and 2014, respectively. The totals in each year primarily reflected common share repurchases and

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dividends to shareholders, partially offset by the proceeds from employee stock option exercises. The total in 2016 also included the issuance of 3.75% senior notes for net proceeds of \$491 million and the payment of the Company's \$400 million, 6.25% senior notes at maturity. The total in 2015 also included the issuance of 4.30% senior notes for net proceeds of \$392 million and the payment of the Company's \$400 million, 5.50% senior notes at maturity. Common share repurchases in 2016, 2015 and 2014 were \$2.47 billion, \$3.22 billion and \$3.33 billion, respectively.

Debt Transactions.

2016. On May 11, 2016, the Company issued \$500 million aggregate principal amount of 3.75% senior notes that will mature on May 15, 2046. The net proceeds of the issuance, after the deduction of underwriting and other expenses, totaled approximately \$491 million. Interest on the senior notes is payable semi-annually in arrears on May 15 and November 15. Prior to November 15, 2045, 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 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 November 15, 2045, 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.

On June 20, 2016, the Company's \$400 million, 6.25% senior notes matured and were fully paid.

2015. On August 25, 2015, the Company issued \$400 million aggregate principal amount of 4.30% senior notes that will mature on August 25, 2045. The net proceeds of the issuance, after original issuance discount and the deduction of underwriting expenses and commissions and other expenses, totaled approximately \$392 million. Interest on the senior notes is payable semi-annually in arrears on February 25 and August 25. Prior to February 25, 2045, 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 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 25 basis points. On or after February 25, 2045, 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.

On December 1, 2015, the Company's \$400 million, 5.50% senior notes matured and were fully paid.

Dividends. Dividends paid to shareholders were \$757 million, \$739 million and \$729 million in 2016, 2015 and 2014, 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 January 24, 2017, the Company announced that its Board of Directors

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declared a regular quarterly dividend of \$0.67 per share, payable March 31, 2017, to shareholders of record on March 10, 2017.

Share Repurchases. The Company's Board of Directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company's financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company's desired ratings from independent rating agencies, funding of the Company's qualified pension plan, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. The following table summarizes repurchase activity in 2016 and remaining repurchase capacity at December 31, 2016.

(in millions, except per share amounts) Quarterly Period Ending	Number of shares purchased	Cost of shares repurchased	Average price paid per share	Remaining capacity under share repurchase authorization
March 31, 2016	5.1	\$ 550	\$ 108.46	\$ 2,784
June 30, 2016	4.9	550	112.12	2,234
September 30, 2016	4.7	550	117.25	1,684
December 31, 2016	6.6	750	113.54	934
Total	21.3	\$ 2,400	112.82	934

From the inception of the first authorization on May 2, 2006 through December 31, 2016, the Company has repurchased a cumulative total of 476.8 million shares for a total cost of \$30.07 billion, or an average of \$63.06 per share.

In 2016, 2015 and 2014, the Company acquired 0.6 million, 0.7 million and 0.7 million shares, respectively, of common stock from employees as treasury stock primarily 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.

Capital Resources

Capital resources reflect the overall financial strength of the Company and its ability to borrow funds at competitive rates and raise new capital to meet its needs. The following table summarizes the components of the Company's capital structure at December 31, 2016 and 2015.

(at December 31, in millions)	2016	2015
Debt:		
Short-term	\$ 550	\$ 500
Long-term	5,911	5,861
Net unamortized fair value adjustments and debt issuance costs	(24)	(17)
Total debt	6,437	6,344
Shareholders' equity:		
Common stock and retained earnings, less treasury stock	23,976	23,755
Accumulated other comprehensive loss	(755)	(157)
Total shareholders' equity	23,221	23,598
Total capitalization	\$ 29,658	\$ 29,942

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Total capitalization at December 31, 2016 was \$29.66 billion, \$284 million lower than at December 31, 2015, primarily reflecting the impact of common share repurchases totaling \$2.40 billion under the Company's share repurchase authorization, a decrease in net unrealized appreciation of investments of \$559 million and shareholder dividends of \$762 million, largely offset by net income of \$3.01 billion.

The following table provides a reconciliation of total capitalization to total capitalization excluding net unrealized gains on investments:

(at December 31, dollars in millions)	2016	2015
Total capitalization	\$ 29,658	\$ 29,942
Less: net unrealized gain on investments, net of taxes	730	1,289
Total capitalization excluding net unrealized gains on investments	\$ 28,928	\$ 28,653

Debt-to-total capital ratio	21.7%	21.2%
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Debt-to-total capital ratio excluding net unrealized gains on investments	22.3%	22.1%
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The debt-to-total capital ratio excluding net unrealized gain on investments is calculated by dividing (a) debt by (b) total capitalization excluding net unrealized gains and losses on investments, net of taxes. 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) of 22.3% at December 31, 2016 was within the Company's target range of 15% to 25%.

Credit Agreement. The Company is a party to a five-year, \$1.0 billion revolving credit agreement with a syndicate of financial institutions that expires on June 7, 2018. Terms of the credit agreement are discussed in more detail in note 8 of notes to the consolidated financial statements.

Shelf Registration. The Company has filed a universal shelf registration statement with the Securities and Exchange Commission that expires on June 17, 2019 for the potential offering and sale of securities. The Company may offer these securities from time to time at prices and on other terms to be determined at the time of offering.

Share Repurchase Authorization. At December 31, 2016, the Company had \$934 million of capacity remaining under its share repurchase authorization approved by the board of directors.

Contractual Obligations

The following table summarizes, as of December 31, 2016, the Company's future payments under contractual obligations and estimated claims and claim-related payments. The table excludes short-term obligations and includes only liabilities at December 31, 2016 that are expected to be settled in cash.

The table below includes the amount and estimated future timing of claims and claim-related payments. The amounts do not represent the exact liability, but instead represent estimates, generally utilizing actuarial projections techniques, at a given accounting date. These estimates include expectations of what the ultimate settlement and administration of claims will cost based on the Company's assessment of facts and circumstances known, review of historical settlement patterns, estimates of trends in claims severity, frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation or deflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may

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be significant reporting lags between the occurrence of the policyholder event and the time it is actually reported to the insurer. The future cash flows related to the items contained in the table below required estimation of both amount (including severity considerations) and timing. Amount and timing are frequently estimated separately. An estimation of both amount and timing of future cash flows related to claims and claim-related payments has unavoidable estimation uncertainty.

The contractual obligations at December 31, 2016 were as follows:

Payments Due by Period (in millions)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Debt					
Senior notes	\$ 6,000	\$ 450	\$ 1,000	\$ 500	\$ 4,050
Junior subordinated debentures	361				361
Total debt principal	6,361	450	1,000	500	4,411
Interest	5,579	353	592	514	4,120
Total long-term debt obligations(1)	11,940	803	1,592	1,014	8,531
Operating leases(2)	605	147	218	140	100
Purchase obligations					
Information systems administration and maintenance commitments(3)	181	62	100	19	
Other purchase commitments(4)	128	46	47	26	9
Total purchase obligations	309	108	147	45	9
Long-term unfunded investment commitments(5)	1,600	348	487	518	247
Estimated claims and claim-related payments					
Claims and claim adjustment expenses(6)	45,864	9,416	10,686	5,722	20,040
Claims from large deductible policies(7)					
Loss-based assessments(8)	169	34	52	19	64
Reinsurance contracts accounted for as deposits(9)	2		2		
Payout from ceded funds withheld(10)	122	20	11	10	81
Total estimated claims and claim-related payments	46,157	9,470	10,751	5,751	20,185
Liabilities related to unrecognized tax benefits(11)	534	534			
Total	\$ 61,145	\$ 11,410	\$ 13,195	\$ 7,468	\$ 29,072

(1)

The Company's \$107 million remaining aggregate principal amount of 6.25% fixed-to-floating rate debentures bear interest at an annual rate of 6.25% from the date of issuance to, but excluding, March 15, 2017 and at a rate of three-month LIBOR plus 2.215% thereafter. The table above includes interest payments through the scheduled maturity date of March 15, 2037. Interest payments beginning March 15, 2017 through March 15, 2037 were calculated using the three-month LIBOR rate as of December 31, 2016.

See note 8 of notes to the consolidated financial statements for a further discussion of outstanding indebtedness. Because the amounts reported in the foregoing table include principal and interest, the total long-term debt obligations will not agree with the amounts reported in note 8.

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- (2) Represents agreements entered into in the ordinary course of business to lease office space, equipment and furniture. Future sublease rental income aggregating approximately \$4 million will partially offset these commitments.
- (3) Includes agreements with vendors to purchase system software administration and maintenance services.
- (4) Includes commitments to vendors entered into in the ordinary course of business for goods and services including property, plant and equipment, office supplies, archival services, etc.
- (5) Represents estimated timing for fulfilling unfunded commitments for private equity limited partnerships and real estate partnerships.
- (6) The amounts in "Claims and claim adjustment expenses" in the table above represent the estimated timing of future payments for both reported and unreported claims incurred and related claim adjustment expenses, gross of reinsurance recoverables, excluding structured settlements expected to be paid by annuity companies.

The Company has entered into reinsurance agreements to manage its exposure to losses and protect its capital as described in note 5 of notes to the consolidated financial statements.

In order to qualify for reinsurance accounting, a reinsurance agreement must indemnify the insurer from insurance risk, i.e., the agreement must transfer amount and timing risk. Since the timing and amount of cash inflows from such reinsurance agreements are directly related to the underlying payment of claims and claim adjustment expenses by the insurer, reinsurance recoverables are recognized in a manner consistent with the liabilities (the estimated liability for claims and claim adjustment expenses) relating to the underlying reinsured contracts. The presence of any feature that can delay timely reimbursement of claims by a reinsurer results in the reinsurance contract being accounted for as a deposit rather than reinsurance. The assumptions used in estimating the amount and timing of the reinsurance recoverables are consistent with those used in estimating the amount and timing of the related liabilities.

The estimated future cash inflows from the Company's reinsurance contracts that qualify for reinsurance accounting are as follows:

(in millions)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Reinsurance recoverables	\$ 4,913	\$ 659	\$ 801	\$ 516	\$ 2,937

The Company manages its business and evaluates its liabilities for claims and claim adjustment expenses on a net of reinsurance basis. The estimated cash flows on a net of reinsurance basis are as follows:

(in millions)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Claims and claim adjustment expenses, net	\$ 40,951	\$ 8,757	\$ 9,885	\$ 5,206	\$ 17,103

For business underwritten by non-U.S. operations, future cash flows related to reported and unreported claims incurred and related claim adjustment expenses were translated at the spot rate on December 31, 2016.

The amounts reported in the table above and in the table of reinsurance recoverables above are presented on a nominal basis and have not been adjusted to reflect the time value of money. Accordingly, the amounts above will differ from the Company's balance sheet to the extent that the liability for claims and claim adjustment expenses and the related reinsurance recoverables

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have been discounted in the balance sheet. See note 1 of notes to the consolidated financial statements.

(7)

Workers' compensation large deductible policies provide third party coverage in which the Company typically is responsible for paying the entire loss under such policies and then seeks reimbursement from the insured for the deductible amount. "Claims from large deductible policies" represent the estimated future payment for claims and claim related expenses below the deductible amount, net of the estimated recovery of the deductible. The liability and the related deductible receivable for unpaid claims are presented in the consolidated balance sheet as "contractholder payables" and "contractholder receivables," respectively. Most deductibles for such policies are paid directly from the policyholder's escrow which is periodically replenished by the policyholder. The payment of the loss amounts above the deductible are reported within "Claims and claim adjustment expenses" in the above table. Because the timing of the collection of the deductible (contractholder receivables) occurs shortly after the payment of the deductible to a claimant (contractholder payables), these cash flows offset each other in the table.

The estimated timing of the payment of the contractholder payables and the collection of contractholder receivables for workers' compensation policies is presented below:

(in millions)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Contractholder payables/receivables	\$ 4,609	\$ 1,169	\$ 1,296	\$ 689	\$ 1,455

(8)

The amounts in "Loss-based assessments" relate to estimated future payments of second-injury fund assessments which would result from payment of current claim liabilities. Second injury funds cover the cost of any additional benefits for aggravation of a pre-existing condition. For loss-based assessments, the cost is shared by the insurance industry and self-insureds, funded through assessments to insurance companies and self-insureds based on losses. Amounts relating to second-injury fund assessments are included in "other liabilities" in the consolidated balance sheet.

(9)

The amounts in "Reinsurance contracts accounted for as deposits" represent estimated future nominal payments for reinsurance agreements that are accounted for as deposits. Amounts payable under deposit agreements are included in "other liabilities" in the consolidated balance sheet.

(10)

The amounts in "Payout from ceded funds withheld" represent estimated payments for losses and return of funds held related to certain reinsurance arrangements whereby the Company holds a portion of the premium due to the reinsurer and is allowed to pay claims from the amounts held.

(11)

The Company's current liabilities related to unrecognized tax benefits from uncertain tax positions are \$534 million. Offsetting these liabilities are deferred tax assets of \$491 million associated with the temporary differences that would exist if these positions become realized.

The above table does not include an analysis of liabilities reported for structured settlements for which the Company has purchased annuities and remains contingently liable in the event of default by the company issuing the annuity. The Company is not reasonably likely to incur material future payment obligations under such agreements. In addition, the Company is not currently subject to any minimum funding requirements for its qualified pension plan. Accordingly, future contributions are not included in the foregoing table.

Dividend Availability

The Company's principal insurance subsidiaries are domiciled in the State of Connecticut. The insurance holding company laws of Connecticut applicable to the Company's subsidiaries requires notice to, and approval by, the state insurance commissioner for the declaration or payment of any dividend that, together with other distributions made within the preceding twelve months, exceeds the

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greater of 10% of the insurer's statutory capital and surplus as of the preceding December 31, or the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices and by state regulation. This declaration or payment is further limited by adjusted unassigned surplus, as determined in accordance with statutory accounting practices. The insurance holding company laws of other states in which the Company's subsidiaries are domiciled generally contain similar, although in some instances somewhat more restrictive, limitations on the payment of dividends. A maximum of \$3.69 billion is available by the end of 2017 for such dividends to the holding company, TRV, without prior approval of the Connecticut Insurance Department. The Company may choose to accelerate the timing within 2017 and/or increase the amount of dividends from its insurance subsidiaries in 2017, which could result in certain dividends being subject to approval by the Connecticut Insurance Department.

In addition to the regulatory restrictions on the availability of dividends that can be paid by the Company's U.S. insurance subsidiaries, the maximum amount of dividends that may be paid to the Company's shareholders is limited, to a lesser degree, by certain covenants contained in its line of credit agreement with a syndicate of financial institutions that require the Company to maintain a minimum consolidated net worth as described in note 8 of notes to the consolidated financial statements.

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 not material and are intended to be permanently reinvested in those operations.

TRV and its two non-insurance holding company subsidiaries received dividends of \$3.05 billion, \$3.75 billion and \$4.10 billion from their U.S. insurance subsidiaries in 2016, 2015 and 2014, respectively.

Pension and Other Postretirement Benefit Plans

The Company sponsors a qualified non-contributory defined benefit pension plan (the Qualified Plan), which covers substantially all U.S. domestic employees and provides benefits primarily under a cash balance formula. In addition, the Company sponsors a nonqualified defined benefit pension plan which covers certain highly-compensated employees, pension plans for employees of its foreign subsidiaries, and a postretirement health and life insurance benefit plan for employees satisfying certain age and service requirements and for certain retirees.

The Qualified Plan is subject to regulations under the Employee Retirement Income Act of 1974 as amended (ERISA), which requires plans to meet minimum standards of funding and requires such plans to subscribe to plan termination insurance through the Pension Benefit Guaranty Corporation (PBGC). The Company does not have a minimum funding requirement for the Qualified Plan for 2017 and does not anticipate having a minimum funding requirement in 2018. The Company has significant discretion in making contributions above those necessary to satisfy the minimum funding requirements. In 2016, 2015 and 2014, there was no minimum funding requirement for the Qualified Plan. In 2016, 2015 and 2014, the Company voluntarily made contributions totaling \$200 million, \$100 million and \$200 million, respectively, to the Qualified Plan. In determining future contributions, the Company will consider the performance of the plan's investment portfolio, the effects of interest rates on the projected benefit obligation of the plan and the Company's other capital requirements. The Company has not determined whether or not additional voluntary funding will be made in 2017. However, the Company currently believes, subject to actual plan performance and funded status at the time, that it may make voluntary pension contributions of approximately \$75 million to \$100 million annually beginning in 2017.

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In 2016, the Company began using a full yield-curve approach in the estimation of the service and interest cost components of net periodic benefit costs for its qualified and nonqualified domestic pension plans and its domestic postretirement benefit plans. For a full discussion of the rationale and impact of this change in approach, see note 14 of notes to the consolidated financial statements.

At December 31, 2016 and 2015, the Company updated its mortality assumptions for estimating its qualified pension plan liabilities utilizing new mortality improvement scales issued by the Society of Actuaries. The adoption of the new mortality improvement scales decreased the projected benefit obligation by \$32 million and \$57 million at December 31, 2016 and 2015, respectively.

The Qualified Plan assets are managed to maximize long-term total return while maintaining an appropriate level of risk. The Company's overall strategy is to achieve a mix of approximately 85% to 90% of investments for long-term growth and 10% to 15% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The current target allocations for plan assets are 55% to 65% equity securities and 20% to 40% fixed income securities, with the remainder allocated to short-term securities. For 2017, the Company plans to apply an expected long-term rate of return on plan assets of 7.00%, the same rate that was applied in 2016. The expected rate of return reflects the Company's current expectations with regard to long-term returns in the capital markets, taking into account the pension plan's asset allocation targets, the historical performance and current valuation of U.S. and international equities, and the level of long term interest rate and inflation expectations. The Company's expected long-term rate of return on plan assets also contemplates a return to more normal levels of long-term interest rates in the future.

For further discussion of the pension and other postretirement benefit plans, see note 14 of notes to the consolidated financial statements.

Risk-Based Capital

The NAIC has an RBC requirement for most property and casualty insurance companies, which determines minimum capital requirements and is intended to raise the level of protection for policyholder obligations. The Company's U.S. insurance subsidiaries are subject to these NAIC RBC requirements based on laws that have been adopted by individual states. These requirements subject insurers having policyholders' surplus less than that required by the RBC calculation to varying degrees of regulatory action, depending on the level of capital inadequacy. Each of the Company's U.S. insurance subsidiaries had policyholders' surplus at December 31, 2016 significantly above the level at which any RBC regulatory action would occur. Regulators in the jurisdictions in which the Company's foreign insurance subsidiaries are located require insurance companies to maintain certain levels of capital depending on, among other things, the type and amount of insurance policies in force. Each of the Company's foreign insurance subsidiaries had capital significantly above their respective regulatory requirements at December 31, 2016.

Off-Balance Sheet Arrangements

The Company has entered into certain contingent obligations for guarantees related to selling businesses to third parties, certain investments, third-party loans related to certain investments, certain insurance policy obligations of former insurance subsidiaries and various other indemnifications. See note 16 of notes to the consolidated financial statements. The Company does not expect these arrangements will have a material effect on the Company's financial position, changes in financial position, revenues and expenses, results of operations, liquidity, capital expenditures or capital resources.

Table of Contents**CRITICAL ACCOUNTING ESTIMATES**

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.

Claims and Claim Adjustment Expense Reserves

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

(in millions)	December 31, 2016			December 31, 2015		
	Case	IBNR	Total	Case	IBNR	Total
General liability	\$ 4,951	\$ 6,925	\$ 11,876	\$ 5,588	\$ 7,120	\$ 12,708
Commercial property	752	357	1,109	715	397	1,112
Commercial multi-peril	1,807	1,935	3,742	1,888	1,750	3,638
Commercial automobile	2,190	1,178	3,368	2,068	1,253	3,321
Workers' compensation	10,322	8,786	19,108	10,269	8,470	18,739
Fidelity and surety	242	323	565	229	475	704
Personal automobile	1,852	1,038	2,890	1,710	842	2,552
Homeowners and personal other	622	468	1,090	601	399	1,000
International and other	2,740	1,441	4,181	2,808	1,690	4,498
Property-casualty	25,478	22,451	47,929	25,876	22,396	48,272
Accident and health	20		20	23		23
Claims and claim adjustment expense reserves	\$ 25,498	\$ 22,451	\$ 47,949	\$ 25,899	\$ 22,396	\$ 48,295

Gross claims and claim adjustment expense reserves at December 31, 2016 decreased by \$346 million from December 31, 2015. This decrease primarily reflected the impacts of (i) payments related to operations in runoff, including the Company's \$524 million payment related to the settlement of the PPG Industries, Inc. litigation as described in more detail in the "Asbestos Claims and Litigation" section and (ii) net favorable prior year reserve development, partially offset by the impacts of (iii) higher volumes of insured exposures and (iv) loss cost trends for the current accident year.

Asbestos and environmental reserves are included in the General liability, Commercial multi-peril and International and other lines in the foregoing summary table. 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."

Claims and claim adjustment expense reserves represent management's estimate of the ultimate liability for unpaid losses and loss adjustment expenses for claims that have been reported and claims that have been incurred but not yet reported (IBNR) as of the balance sheet date. Claims and claim adjustment expense reserves do not represent an exact calculation of liability, but instead represent management estimates, primarily utilizing actuarial expertise and projection methods. These estimates are expectations of what the ultimate settlement and administration of claims will cost upon final resolution in the future, based on the Company's assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity and frequency, expected interpretations of legal theories of liability and other factors. In establishing gross claims and claim adjustment expense reserves, the Company also considers salvage and subrogation. Estimated recoveries from reinsurance are included in "Reinsurance Recoverables" as an asset on the Company's consolidated balance sheet. The claims and claim adjustment expense reserves are reviewed regularly by qualified actuaries employed by the Company.

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The process of estimating claims and claim adjustment expense reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as changes in claims handling procedures, changes in individuals involved in the reserve estimation process, economic inflation, legal trends and legislative changes, among others. The impact of many of these items on ultimate costs for claims and claim adjustment expenses is difficult to estimate. Estimation difficulties also differ significantly by product line due to differences in claim complexity, the volume of claims, the potential severity of individual claims, the determination of occurrence date for a claim and reporting lags (the time between the occurrence of the policyholder event and when it is actually reported to the insurer). Informed judgment is applied throughout the process, including the application of various individual experiences and expertise to multiple sets of data and analyses. The Company continually refines its estimates in a regular ongoing process as historical loss experience develops and additional claims are reported and settled. The Company rigorously attempts to consider all significant facts and circumstances known at the time claims and claim adjustment expense reserves are established. Due to the inherent uncertainty underlying these estimates including, but not limited to, the future settlement environment, final resolution of the estimated liability for claims and claim adjustment expenses may be higher or lower than the related claims and claim adjustment expense reserves at the reporting date. Therefore, actual paid losses, as claims are settled in the future, may be materially different than the amount currently recorded favorable or unfavorable.

Because 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.

There are also additional risks which impact the estimation of ultimate costs for catastrophes. For example, the estimation of reserves related to hurricanes, tornadoes and other catastrophic events can be affected by the inability of the Company and its insureds to access portions of the impacted areas, the complexity of factors contributing to the losses, the legal and regulatory uncertainties, including the interpretation of policy terms and conditions, and the nature of the information available to establish the reserves. Complex factors include, but are not limited to: determining whether damage was caused by flooding versus wind; evaluating general liability and pollution exposures; estimating additional living expenses; estimating the impact of demand surge, infrastructure disruption, fraud, the effect of mold damage and business interruption costs; and reinsurance collectibility. The timing of a catastrophe, such as at or near the end of a reporting period, can also affect the information available to the Company in estimating reserves for that reporting period. The estimates related to catastrophes are adjusted as actual claims emerge.

A portion of the Company's gross claims and claim adjustment expense reserves (totaling \$1.91 billion at December 31, 2016) are for asbestos and environmental claims and related litigation. 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 insurance reserves by an amount that could be material to the Company's future operating results. See the preceding discussion of "Asbestos Claims and Litigation" and "Environmental Claims and Litigation."

General Discussion

The process for estimating the liabilities for claims and claim adjustment expenses begins with the collection and analysis of claim data. Data on individual reported claims, both current and historical, including paid amounts and individual claim adjuster estimates, are grouped by common characteristics

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(components) and evaluated by actuaries in their analyses of ultimate claim liabilities. Such data is occasionally supplemented with external data as available and when appropriate. The process of analyzing reserves for a component is undertaken on a regular basis, generally quarterly, in light of continually updated information.

Multiple estimation methods are available for the analysis of ultimate claim liabilities. Each estimation method has its own set of assumption variables and its own advantages and disadvantages, with no single estimation method being better than the others in all situations and no one set of assumption variables being meaningful for all product line components. The relative strengths and weaknesses of the particular estimation methods when applied to a particular group of claims can also change over time. Therefore, the actual choice of estimation method(s) can change with each evaluation. The estimation method(s) chosen are those that are believed to produce the most reliable indication at that particular evaluation date for the claim liabilities being evaluated.

In most cases, multiple estimation methods will be valid for the particular facts and circumstances of the claim liabilities being evaluated. This will result in a range of reasonable estimates for any particular claim liability. The Company uses such range analyses to back test whether previously established estimates for reserves by reporting segments are reasonable, given available information. Reported values found to be closer to the endpoints of a range of reasonable estimates are subject to further detailed reviews. These reviews may substantiate the validity of management's recorded estimate or lead to a change in the reported estimate.

The exact boundary points of these ranges are more qualitative than quantitative in nature, as no clear line of demarcation exists to determine when the set of underlying assumptions for an estimation method switches from being reasonable to unreasonable. As a result, the Company does not believe that the endpoints of these ranges are or would be comparable across companies. In addition, potential interactions among the different estimation assumptions for different product lines make the aggregation of individual ranges a highly judgmental and inexact process.

Property-casualty insurance policies are either written on a "claims-made" or on an "occurrence" basis. Claims-made policies generally cover, subject to requirements in individual policies, claims reported during the policy period. Policies that are written on an occurrence basis require that the insured demonstrate that a loss occurred in the policy period, even if the insured reports the loss many years later.

Most general liability policies are written on an occurrence basis. These policies are subject to substantial loss development over time as facts and circumstances change in the years following the policy issuance. The occurrence form, which accounts for much of the reserve development in asbestos and environmental exposures, is also used to provide coverage for construction general liability, including construction defect. Occurrence-based forms of insurance for general liability exposures require substantial projection of loss trends, which can be influenced by a number of factors, including future inflation, judicial interpretations and societal litigation trends (e.g., size of jury awards and propensity of individuals to pursue litigation), among others.

A basic premise in most actuarial analyses is that past patterns demonstrated in the data will repeat themselves in the future, absent a material change in the associated risk factors discussed below. To the extent a material change affecting the ultimate claim liability is known, such change is estimated to the extent possible through an analysis of internal company data and, if available and when appropriate, external data. Such a measurement is specific to the facts and circumstances of the particular claim portfolio and the known change being evaluated. Significant structural changes to the available data, product mix or organization can materially impact the reserve estimation process.

Informed judgment is applied throughout the reserving process. This includes the application of various individual experiences and expertise to multiple sets of data and analyses. In addition to

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actuaries, experts involved with the reserving process also include underwriting and claims personnel and lawyers, as well as other company management. Therefore, management may have to consider varying individual viewpoints as part of its estimation of claims and claim adjustment expense reserves. It is also likely that during periods of significant change, such as a merger, consistent application of informed judgment becomes even more complicated and difficult.

The variables discussed above in this general discussion have different impacts on reserve estimation uncertainty for a given product line, depending on the length of the claim tail, the reporting lag, the impact of individual claims and the complexity of the claim process for a given product line.

Product lines are generally classifiable as either long tail or short tail, based on the average length of time between the event triggering claims under a policy and the final resolution of those claims. Short tail claims are reported and settled quickly, resulting in less estimation variability. The longer the time to final claim resolution, the greater the exposure to estimation risks and hence the greater the estimation uncertainty.

A major component of the claim tail is the reporting lag. The reporting lag, which is the time between the event triggering a claim and the reporting of the claim to the insurer, makes estimating IBNR inherently more uncertain. In addition, the greater the reporting lag, the greater the proportion of IBNR to the total claim liability for the product line. Writing new products with material reporting lags can result in adding several years' worth of IBNR claim exposure before the reporting lag exposure becomes clearly observable, thereby increasing the risk associated with estimating the liabilities for claims and claim adjustment expenses for such products. The most extreme example of claim liabilities with long reporting lags are asbestos claims.

For some lines, the impact of large individual claims can be material to the analysis. These lines are generally referred to as being "low frequency/high severity," while lines without this "large claim" sensitivity are referred to as "high frequency/low severity." Estimates of claim liabilities for low frequency/high severity lines can be sensitive to the impact of a small number of potentially large claims. As a result, the role of judgment is much greater for these reserve estimates. In contrast, for high frequency/low severity lines the impact of individual claims is relatively minor and the range of reasonable reserve estimates is likely narrower and more stable.

Claim complexity can also greatly affect the estimation process by impacting the number of assumptions needed to produce the estimate, the potential stability of the underlying data and claim process, and the ability to gain an understanding of the data. Product lines with greater claim complexity, such as for certain surety and construction exposures, have inherently greater estimation uncertainty.

Actuaries have to exercise a considerable degree of judgment in the evaluation of all these factors in their analysis of reserves. The human element in the application of actuarial judgment is unavoidable when faced with material uncertainty. Different actuaries may choose different assumptions when faced with such uncertainty, based on their individual backgrounds, professional experiences and areas of focus. Hence, the estimates selected by the various actuaries may differ materially from each other.

Lastly, significant structural changes to the available data, product mix or organization can also materially impact the reserve estimation process. Events such as mergers increase the inherent uncertainty of reserve estimates for a period of time, until stable trends re-establish themselves within the new organization.

Risk factors

The major causes of material uncertainty ("risk factors") generally will vary for each product line, as well as for each separately analyzed component of the product line. In a few cases, such risk factors are explicit assumptions of the estimation method, but in most cases, they are implicit. For example, a

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method may explicitly assume that a certain percentage of claims will close each year, but will implicitly assume that the legal interpretation of existing contract language will remain unchanged. Actual results will likely vary from expectations for each of these assumptions, causing actual paid losses, as claims are settled in the future, to be different in amount than the reserves being estimated currently.

Some risk factors will affect more than one product line. Examples include changes in claim department practices, changes in settlement patterns, regulatory and legislative actions, court actions, timeliness of claim reporting, state mix of claimants and degree of claimant fraud. The extent of the impact of a risk factor will also vary by components within a product line. Individual risk factors are also subject to interactions with other risk factors within product line components.

The effect of a particular risk factor on estimates of claim liabilities cannot be isolated in most cases. For example, estimates of potential claim settlements may be impacted by the risk associated with potential court rulings, but the final settlement agreement typically does not delineate how much of the settled amount is due to this and other factors.

The evaluation of data is also subject to distortion from extreme events or structural shifts, sometimes in unanticipated ways. For example, the timing of claims payments in one geographic region may be impacted if claim adjusters are temporarily reassigned from that region to help settle catastrophe claims in another region.

While some changes in the claim environment are sudden in nature (such as a new court ruling affecting the interpretation of all contracts in that jurisdiction), others are more evolutionary. Evolutionary changes can occur when multiple factors affect final claim values, with the uncertainty surrounding each factor being resolved separately, in stepwise fashion. The final impact is not known until all steps have occurred.

Sudden changes generally cause a one-time shift in claim liability estimates, although there may be some lag in reliable quantification of their impact. Evolutionary changes generally cause a series of shifts in claim liability estimates, as each component of the evolutionary change becomes evident and estimable.

Actuarial methods for analyzing and estimating claims and claim adjustment expense reserves

The principal estimation and analysis methods utilized by the Company's actuaries to evaluate management's existing estimates for prior accident periods are the paid loss development method, the case incurred development method, the Bornhuetter-Ferguson (BF) method, and average value analysis combined with the reported claim development method. The BF method is usually utilized for more recent accident periods, with a transition to other methods as the underlying claim data becomes more voluminous and therefore more credible. These estimation and analysis methods are typically referred to as conventional actuarial methods. (See note 7 of notes to the consolidated financial statements for an explanation of these methods).

While the Company utilizes these conventional actuarial methods to estimate the claims liability for its various businesses, Company actuaries evaluating a particular component for a product line may select from the full range of methods developed within the casualty actuarial profession. The Company's actuaries are also continually monitoring developments within the profession for advances in existing techniques or the creation of new techniques that might improve current and future estimates.

Some components of a product line may be susceptible to infrequent large claims or not be subject to conventional methods. In such cases, the Company's actuarial analysis will isolate such components for review. The reserves excluding such large claims are generally analyzed using the conventional

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methods described above. The reserves associated with large claims are then analyzed utilizing various methods, such as:

Estimating the number of large claims and their average values based on historical trends from prior accident periods, adjusted for the current environment and supplemented with actual data for the accident year analyzed to the extent available.

Utilizing individual claim adjuster estimates of the large claims, combined with continual monitoring of the aggregate accuracy of such claim adjuster estimates. (This monitoring may lead to supplemental adjustments to the aggregate of such claim estimates.)

Utilizing historic longer-term average ratios of large claims to small claims, and applying such ratios to the estimated ultimate small claims from conventional analysis.

Ground-up analysis of the underlying exposure (typically used for asbestos and environmental).

The results of such methodologies are subjected to various reasonability and diagnostic tests, including implied incurred-loss-to-earned-premium ratios, non-zero claim severity trends and paid-to-incurred loss ratios. An actual versus expected analysis is also performed comparing actual loss development to expected development embedded within management's best estimate. Additional analyses may be performed based on the results of these diagnostics, including the investigation of other actuarial methods.

The methods described above are generally utilized to evaluate management's estimate for prior accident periods. For the initial estimate of the current accident year, however, the available claim data is typically insufficient to produce a reliable indication. As a result, the initial estimate for an accident year is generally based on an exposure-based method using either expected losses or a loss ratio projection method. The loss ratio method uses the earned premium for the current year multiplied by a projected loss ratio. The projected loss ratio is determined through an analysis of prior periods' experience, using loss trend, rate level differences, mix of business changes and other known or observed factors influencing the current accident year relative to prior accident years. The exact number of prior accident years utilized varies by product line component, based on the stability and consistency of the individual accident year estimates.

Management's estimates

At least once per quarter, certain members of Company management meet with the Company's actuaries to review the latest claims and claim adjustment expense reserve analyses. Based on these analyses, management determines whether its ultimate claim liability estimates should be changed. In doing so, it must evaluate whether the new data provided represents credible actionable information or an anomaly that will have no effect on estimated ultimate claim liability. For example, as described above, payments may have decreased in one geographic region due to fewer claim adjusters being available to process claims. The resulting claim payment patterns would be analyzed to determine whether or not the change in payment pattern represents a change in ultimate claim liability.

Such an assessment requires considerable judgment. It is frequently not possible to determine whether a change in the data is an anomaly until sometime after the event. Even if a change is determined to be permanent, it is not always possible to reliably determine the extent of the change until sometime later. The overall detailed analyses supporting such an effort can take several months to perform as the underlying causes of the trends observed need to be evaluated, which may require the gathering or assembling of data not previously available. It may also include interviews with experts involved with the underlying processes. As a result, there can be a time lag between the emergence of a change and a determination that the change should be reflected in the Company's estimated claim liabilities. The final estimate selected by management in a reporting period is based on these various detailed analyses of past data, adjusted to reflect any new actionable information.

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The Audit Committee of the Board of Directors is responsible for providing oversight of reserving propriety, and annually reviews the process by which the Company establishes reserves.

Discussion of Product Lines

The following section details reserving considerations and common risk factors by product line. There are many additional risk factors that may impact ultimate claim costs. Each risk factor presented will have a different impact on required reserves. Also, risk factors can have offsetting or compounding effects on required reserves. For example, in workers' compensation, the use of expensive medical procedures that result in medical cost inflation may enable workers to return to work faster, thereby lowering indemnity costs. Thus, in almost all cases, it is impossible to discretely measure the effect of a single risk factor and construct a meaningful sensitivity expectation.

In order to provide information on reasonably possible reserving changes by product line, the historical changes in year-end claims and claim adjustment expense reserves over a one-year period are provided for the U.S. product lines. This information is provided for both the Company and the industry for the nine most recent years, and is based on the most recent publicly available data for the reported line(s) that most closely match the individual product line being discussed. These changes were calculated, net of reinsurance, from statutory annual statement data found in Schedule P of those statements, and represent the reported reserve development on the beginning-of-the-year claim liabilities divided by the beginning claim liabilities, all accident years combined, excluding non-defense related claim adjustment expense. Data presented for the Company includes history for the entire Travelers group (U.S. companies only), as required by the statutory reporting instructions promulgated by state regulatory authorities for Schedule P. Comparable data for non-U.S. companies is not available.

General Liability

General liability is generally considered a long tail line, as it takes a relatively long period of time to finalize and settle claims from a given accident year. The speed of claim reporting and claim settlement is a function of the characteristics of claims, including specific coverage provided, the jurisdiction and specific policy provisions such as self-insured retentions, among others. There are numerous components underlying the general liability product line. Some of these have relatively moderate payment patterns (with most of the claims for a given accident year closed within five to seven years), while others can have extreme lags in both reporting and payment of claims (e.g., a reporting lag of a decade or more for "construction defect" claims).

While the majority of general liability coverages are written on an "occurrence" basis, certain general liability coverages (such as those covering management liability or professional liability) are typically insured on a "claims-made" basis.

General liability reserves are generally analyzed as two components: primary and excess/umbrella, with the primary component generally analyzed separately for bodily injury and property damage. Bodily injury liability payments reimburse the claimant for damages pertaining to physical injury as a result of the policyholder's legal obligation arising from non-intentional acts such as negligence, subject to the insurance policy provisions. In some cases the damages can include future wage loss (which is a function of future earnings power and wage inflation) and future medical treatment costs. Property damage liability payments result from damages to the claimant's private property arising from the policyholder's legal obligation for non-intentional acts. In most cases, property damage losses are a function of costs as of the loss date, or soon thereafter.

In addition, sizable or unique exposures are reviewed separately. These exposures include asbestos, environmental, other mass torts, construction defect and large unique accounts that would otherwise distort the analysis. These unique categories often require a very high degree of judgment and require reserve analyses that do not rely on conventional actuarial methods.

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Defense costs are also a part of the insured costs covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims. For some products this risk is mitigated by policy language such that the insured portion of defense costs is included in the policy limit available to pay the claim. Such "defense within the limits" policies are most common for "claims-made" products. When defense costs are outside of the policy limits, the full amount of the policy limit is available to pay claims and the amounts paid for defense costs have no contractual limit.

This line is typically the largest source of reserve estimate uncertainty in the United States (excluding assumed reinsurance contracts covering the same risk). Major contributors to this reserve estimate uncertainty include the reporting lag (i.e., the length of time between the event triggering coverage and the actual reporting of the claim), the number of parties involved in the underlying tort action, whether the "event" triggering coverage is confined to only one time period or is spread over multiple time periods, the potential dollars involved (in the individual claim actions), whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written (i.e., coverage dispute potential), and the potential for mass claim actions. Claims with longer reporting lags result in greater estimation uncertainty. This is especially true for alleged claims with a latency feature, particularly where courts have ruled that coverage is spread over multiple policy years, hence involving multiple defendants (and their insurers and reinsurers) and multiple policies (thereby increasing the potential dollars involved and the underlying settlement complexity). Claims with long latencies also increase the potential recognition lag (i.e., the lag between writing a type of policy in a certain market and the recognition that such policies have potential mass tort and/or latent claim exposure).

The amount of reserve estimate uncertainty also varies significantly by component for the general liability product line. The components in this product line with the longest latency, longest reporting lags, largest potential dollars involved and greatest claim settlement complexity are asbestos and environmental. Components that include latency, reporting lag and/or complexity issues, but to a materially lesser extent than asbestos and environmental, include construction defect and other mass tort actions. Many components of general liability are not subject to material latency or claim complexity risks and hence have materially less uncertainty than the previously mentioned components. In general, components with shorter reporting lags, fewer parties involved in settlement negotiations, only one policy potentially triggered per claim, fewer potential settlement dollars, reasonably foreseeable (and stable) potential hazards/claims and no mass tort potential result in much less reserve estimate uncertainty than components without those characteristics.

In addition to the conventional actuarial methods mentioned in the general discussion section, the company utilizes various report year development and S-curve methods for the construction defect components of this product line. The Construction Defect report year development analysis is supplemented with projected claim counts and average values for IBNR claim counts. For components with greater lags in claim reporting, such as excess and umbrella components of this product line, the company relies more heavily on the BF method than on the paid and case incurred development methods.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required general liability reserves (beyond those included in the general discussion section) include:

General liability risk factors

Changes in claim handling philosophies

Changes in policy provisions or court interpretation of such provisions

New or expanded theories of liability

Trends in jury awards

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Changes in the propensity to sue, in general with specificity to particular issues

Changes in the propensity to litigate rather than settle a claim

Changes in statutes of limitations

Changes in the underlying court system

Distortions from losses resulting from large single accounts or single issues

Changes in tort law

Shifts in lawsuit mix between federal and state courts

Changes in claim adjuster office structure (causing distortions in the data)

The potential impact of inflation on loss costs

Changes in settlement patterns

General liability book of business risk factors

Changes in policy provisions (e.g., deductibles, policy limits, endorsements)

Changes in underwriting standards

Product mix (e.g., size of account, industries insured, jurisdiction mix)

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for general liability (excluding asbestos and environmental), a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.5% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line, excluding estimated asbestos and environmental amounts, over the last nine years has varied from 8% to 3% (averaging 5%) for the Company, and from 5% to 1% (averaging 3%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. General liability reserves (excluding asbestos and environmental) represent approximately 22% of the Company's total claims and claim adjustment expense reserves.

The Company's change in reserve estimate for this product line, excluding estimated asbestos and environmental amounts, was 4% for 2016, 3% for 2015 and 5% for 2014. The 2016 change primarily reflected better than expected loss experience for both primary and excess coverages for accident years 2015 and prior. The 2015 change primarily reflected better than expected loss experience for excess coverages for accident years 2005 through 2013. The 2014 change primarily reflected better than expected loss experience for excess coverages for accident years 2008 through 2012.

Commercial Property

Commercial property is generally considered a short tail line with a simpler and faster claim reporting and adjustment process than liability coverages, and less uncertainty in the reserve setting process (except for more complex business interruption claims). It is generally viewed as a moderate frequency, low to moderate severity line, except for catastrophes and coverage related to large properties. The claim reporting and settlement process for property coverage claim reserves is generally restricted to the insured and the insurer. Overall, the claim liabilities for this line create a low estimation risk, except possibly for catastrophes and business interruption claims.

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Commercial property reserves are typically analyzed in two components, one for catastrophic or other large single events, and another for all other events. Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required property reserves (beyond those included in the general discussion section) include:

Commercial property risk factors

Physical concentration of policyholders

Availability and cost of local contractors

For the more severe catastrophic events, "demand surge" inflation, which refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services

Local building codes

Amount of time to return property to full usage (for business interruption claims)

Frequency of claim re-openings on claims previously closed

Court interpretation of policy provisions (such as occurrence definition, or wind versus flooding)

Lags in reporting claims (e.g., winter damage to summer homes, hidden damage after an earthquake, hail damage to roofs and/or equipment on roofs)

Court or legislative changes to the statute of limitations

Commercial property book of business risk factors

Policy provisions mix (e.g., deductibles, policy limits, endorsements)

Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for property, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 25% to 5% (averaging 16%) for the Company, and from 14% to 5% (averaging 8%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Commercial property reserves represent approximately 2% of the Company's total claims and claim adjustment expense reserves.

Since commercial property is considered a short tail coverage, the one year change for commercial property can be more volatile than that for the longer tail product lines. This is due to the fact that the majority of the reserve for commercial property relates to the most recent accident year, which is subject to the most uncertainty for all product lines. This recent accident year uncertainty is relevant to commercial property

because of weather-related events which, notwithstanding 2013 through 2016 experience, tend to be concentrated in the second half of the year, and generally are not completely resolved until the following year. Reserve estimates associated with major catastrophes may take even longer to resolve. The reserve estimates for this product line are also potentially subject to material changes due to uncertainty in measuring ultimate losses for significant catastrophes such as the events of September 11, 2001, Hurricane Katrina and Storm Sandy.

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The Company's change in reserve estimate for this product line was 9% for 2016, 21% for 2015 and 18% for 2014. The 2016 change primarily reflected better than expected loss experience related to non-catastrophe losses for accident years 2014 and 2015. The 2015 change primarily reflected better than expected loss experience related to catastrophe losses for accident years 2011, 2012 and 2014, and non-catastrophe losses for accident years 2013 and 2014. The 2014 change primarily reflected better than expected loss experience for accident years 2010 through 2013, including catastrophe losses from Storm Sandy for accident year 2012.

Commercial Multi-Peril

Commercial multi-peril provides a combination of property and liability coverage typically for small businesses and, therefore, includes both short and long tail coverages. For property coverage, it generally takes a relatively short period of time to close claims, while for the other coverages, generally for the liability coverages, it takes a longer period of time to close claims.

The reserving risk for this line is dominated by the liability coverage portion of this product, except occasionally in the event of catastrophic or large single losses. The reserving risk for this line differs from that of the general liability product line and the property product line due to the nature of the customer. Commercial multi-peril is generally sold to small- to mid-sized accounts, while the customer profile for general liability and commercial property includes larger customers.

See "Commercial property risk factors" and "General liability risk factors," discussed above, with regard to reserving risk for commercial multi-peril.

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for commercial multi-peril (excluding asbestos and environmental), a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.2% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line, excluding estimated asbestos and environmental amounts, over the last nine years has varied from 19% to 5% (averaging 2%) for the Company, and from 6% to 1% (averaging 3%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Commercial multi-peril reserves (excluding asbestos and environmental reserves) represent approximately 8% of the Company's total claims and claim adjustment expense reserves.

As discussed above, this line combines general liability and commercial property coverages and it has been impacted in the past by many of the same events as those two lines.

The Company's change in reserve estimate for this product line was 1% for 2016, 1% for 2015 and 3% for 2014. The 2016 change primarily reflected worse than expected loss experience for property coverages related to non-catastrophe losses for accident year 2015. The 2015 change primarily reflected better than expected loss experience for property coverages related to non-catastrophe losses for accident years 2012 and 2014. The 2014 change primarily reflected worse than expected loss experience for liability coverages for accident years 2010 through 2013.

Commercial Automobile

The commercial automobile product line is a mix of property and liability coverages and, therefore, includes both short and long tail coverages. The payments that are made quickly typically pertain to auto physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. In general, claim

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reporting lags are minor, claim complexity is not a major issue, and the line is viewed as high frequency, low to moderate severity. Overall, the claim liabilities for this line create a moderate estimation risk.

Commercial automobile reserves are typically analyzed in four components: bodily injury liability; property damage liability; collision claims; and comprehensive claims. These last two components have minimum reserve risk and fast payouts and, accordingly, separate risk factors are not presented.

The Company utilizes the conventional actuarial methods mentioned in the general discussion above in estimating claim liabilities for this line. This is supplemented with detailed custom analyses where needed.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required commercial automobile reserves (beyond those included in the general discussion section) include:

Bodily injury and property damage liability risk factors

Trends in jury awards

Changes in the underlying court system

Changes in case law

Litigation trends

Frequency of claims with payment capped by policy limits

Change in average severity of accidents, or proportion of severe accidents

Changes in auto safety technology

Subrogation opportunities

Changes in claim handling philosophies

Frequency of visits to health providers

Number of medical procedures given during visits to health providers

Types of health providers used

Types of medical treatments received

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Changes in cost of medical treatments

Degree of patient responsiveness to treatment

Commercial automobile book of business risk factors

Changes in policy provisions (e.g., deductibles, policy limits, endorsements, etc.)

Changes in mix of insured vehicles (e.g., long haul trucks versus local and smaller vehicles, fleet risks versus non-fleets)

Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for commercial automobile, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.2% increase (decrease) in claims and claim adjustment expense reserves.

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Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 7% to 7% (averaging 0%) for the Company, and from 3% to 6% (averaging 0%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Commercial automobile reserves represent approximately 7% of the Company's total claims and claim adjustment expense reserves.

The Company's change in reserve estimate for this product line was 1% for 2016, 0% for 2015 and 2% for 2014. The 2016 change primarily reflected better than expected loss experience for accident years 2011 and prior. The 2014 change primarily reflected better than expected loss experience for accident years 2011 and 2012.

Workers' Compensation

Workers' compensation is generally considered a long tail coverage, as it takes a relatively long period of time to finalize claims from a given accident year. While certain payments such as initial medical treatment or temporary wage replacement for the injured worker are made quickly, some other payments are made over the course of several years, such as awards for permanent partial injuries. In addition, some payments can run as long as the injured worker's life, such as permanent disability benefits and on-going medical care. Despite the possibility of long payment tails, the reporting lags are generally short, payment obligations are generally not complex, and most of the liability can be considered high frequency with moderate severity. The largest reserve risk generally comes from the low frequency, high severity claims providing lifetime coverage for medical expense arising from a worker's injury, as such claims are subject to greater inflation risk. Overall, the claim liabilities for this line create a somewhat greater than moderate estimation risk.

Workers' compensation reserves are typically analyzed in three components: indemnity losses, medical losses and claim adjustment expenses.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required workers' compensation reserves (beyond those included in the general discussion section) include:

Indemnity risk factors

Time required to recover from the injury

Degree of available transitional jobs

Degree of legal involvement

Changes in the interpretations and processes of the administrative bodies that oversee workers' compensation claims

Future wage inflation for states that index benefits

Changes in the administrative policies of second injury funds

Medical risk factors

Changes in the cost of medical treatments (including prescription drugs) and underlying fee schedules ("inflation")

Frequency of visits to health providers

Number of medical procedures given during visits to health providers

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Types of health providers used

Type of medical treatments received

Use of preferred provider networks and other medical cost containment practices

Availability of new medical processes and equipment

Changes in the use of pharmaceutical drugs, including drugs for pain management

Degree of patient responsiveness to treatment

General workers' compensation risk factors

Frequency of reopening claims previously closed

Mortality trends of injured workers with lifetime benefits and medical treatment

Changes in statutory benefits

Degree of cost shifting between workers' compensation and health insurance, including Medicare, and the impact, if any, of the Affordable Care Act

Workers' compensation book of business risk factors

Product mix

Injury type mix

Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for workers' compensation, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.3% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 2% to 1% (averaging 1%) for the Company, and from 2 to 1% (averaging 1%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Workers' compensation reserves represent approximately 40% of the Company's total claims and claim adjustment expense reserves.

The Company's change in reserve estimate for this product line was 2% for 2016, 1% for 2015 and 0% for 2014. The 2016 change primarily reflected better than expected loss experience for accident years 2006 and prior as well as accident years 2009, 2013 and 2015. The

2015 change primarily reflected better than expected loss experience for accident years 2006 and prior.

Fidelity and Surety

Fidelity is generally considered a short tail coverage. It takes a relatively short period of time to finalize and settle most fidelity claims. The volatility of fidelity reserves is generally related to the type of business of the insured, the size and complexity of the insured's business operations, amount of policy limit and attachment point of coverage. The uncertainty surrounding reserves for small, commercial insureds is typically less than the uncertainty for large commercial or financial institutions. The high frequency, low severity nature of small commercial fidelity losses provides for stability in loss estimates, whereas the low frequency, high severity nature of losses for large insureds results in a wider range of ultimate loss outcomes. Actuarial techniques that rely on a stable pattern of loss development are generally not applicable to low frequency, high severity claims.

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Surety has certain components that are generally considered short tail coverages with short reporting lags, although large individual construction and commercial surety contracts can result in a long settlement tail, based on the length and complexity of the construction project(s) or commercial transaction being insured. (Large construction projects can take many years to complete.) The frequency of losses in surety generally correlates with economic cycles as the primary cause of surety loss is the inability of an insured to fulfill its contractual obligations. The Company actively seeks to mitigate this exposure to loss through disciplined risk selection, adherence to underwriting standards and ongoing monitoring of contractor progress in significant construction projects. The volatility of surety losses is generally related to the type of business performed by the insured, the type of bonded obligation, the amount of limit exposed to loss and the amount of assets available to the insurer to mitigate losses, such as unbilled contract funds, collateral, first and third party indemnity, and other security positions of an insured's assets. Certain classes of surety claims are very high severity, low frequency in nature. These can include large construction contractors involved with one or multiple large, complex projects as well as certain large commercial surety exposures. Other claim factors affecting reserve variability of surety include litigation related to amounts owed by and due the insured (e.g., salvage and subrogation efforts) and the results of financial restructuring of an insured.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required fidelity and surety reserves (beyond those included in the general discussion section) include:

Fidelity risk factors

Type of business of insured

Policy limit and attachment points

Third-party claims

Coverage litigation

Complexity of claims

Growth in insureds' operations

Surety risk factors

Economic trends, including the general level of construction activity

Concentration of reserves in a relatively few large claims

Type of business insured

Type of obligation insured

Cumulative limits of liability for insured

Assets available to mitigate loss

Defective workmanship/latent defects

Financial strategy of insured

Changes in statutory obligations

Geographic spread of business

Fidelity and Surety book of business risk factors

Changes in policy provisions (e.g., deductibles, limits, endorsements)

Changes in underwriting standards

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Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for fidelity and surety, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.4% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 36% to 6% (averaging 18%) for the Company, and from 17% to 2% (averaging 9%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Fidelity and surety reserves represent approximately 1% of the Company's total claims and claim adjustment expense reserves.

In general, developments on single large claims (both adverse and favorable) are a primary source of changes in reserve estimates for this product line.

The Company's change in reserve estimate for this product line was 36% for 2016, 30% for 2015 and 36% for 2014. The 2016 change primarily reflected better than expected loss experience in the fidelity and surety product line for accident years 2009 through 2015. The 2015 change primarily reflected better than expected loss experience in the fidelity and surety product line for accident years 2008 through 2014, which was partially driven by a reduction in outstanding exposures related to the financial crisis that commenced in 2007. The 2014 change primarily reflected better than expected loss experience in the contract surety product line for accident years 2012 and prior.

Personal Automobile

Personal automobile includes both short and long tail coverages. The payments that are made quickly typically pertain to auto physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. Reporting lags are relatively short and the claim settlement process for personal automobile liability generally is the least complex of the liability products. It is generally viewed as a high frequency, low to moderate severity product line. Overall, the claim liabilities for this line create a moderate estimation risk.

Personal automobile reserves are typically analyzed in five components: bodily injury liability, property damage liability, no-fault losses, collision claims and comprehensive claims. These last two components have minimum reserve risk and fast payouts and, accordingly, separate factors are not presented.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required personal automobile reserves (beyond those included in the general reserve discussion section) include:

Bodily injury and property damage liability risk factors

Trends in jury awards

Changes in the underlying court system and its philosophy

Changes in case law

Litigation trends

Frequency of claims with payment capped by policy limits

Change in average severity of accidents, or proportion of severe accidents

Changes in auto safety technology

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Frequency and severity of claims involving distracted drivers and pedestrians

Subrogation opportunities

Degree of patient responsiveness to treatment

Changes in claim handling philosophies

No-fault risk factors (for selected states and time periods)

Effectiveness of no-fault laws

Frequency of visits to health providers

Number of medical procedures given during visits to health providers

Types of health providers used

Types of medical treatments received

Changes in cost of medical treatments

Degree of patient responsiveness to treatment

Personal automobile book of business risk factors

Changes in policy provisions (e.g., deductibles, policy limits, endorsements, etc.)

Changes in underwriting standards

Changes in the use of credit data for rating and underwriting

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for personal automobile, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in claims and claim adjustment expense reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from 4% to 3% (averaging 1%) for the Company, and from 3% to 1% (averaging 2%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Personal automobile reserves represent approximately 6% of the Company's total claims and claim adjustment expense reserves.

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The Company's change in reserve estimate for this product line was 3% for 2016, 4% for 2015 and 1% for 2014. The 2016 change primarily reflected worse than expected loss experience for liability coverages for accident year 2015. The change for 2015 primarily reflected better than expected loss experience for liability coverages for accident years 2012 through 2014.

Homeowners and Personal Lines Other

Homeowners is generally considered a short tail coverage. Most payments are related to the property portion of the policy, where the claim reporting and settlement process is generally restricted to the insured and the insurer. Claims on property coverage are typically reported soon after the actual damage occurs, although delays of several months are not unusual. The resulting settlement process is typically fairly short term, although exceptions do exist.

The liability portion of the homeowners policy generates claims which take longer to pay due to the involvement of litigation and negotiation, but with generally small reporting lags. Personal Lines

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Other products include personal umbrella policies, among others. See "general liability reserving risk factors," discussed above, for reserving risk factors related to umbrella coverages.

Overall, the line is generally high frequency, low to moderate severity (except for catastrophes), with simple to moderate claim complexity.

Homeowners reserves are typically analyzed in two components: non-catastrophe related losses and catastrophe loss payments.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required homeowners reserves (beyond those included in the general discussion section) include:

Non-catastrophe risk factors

Salvage opportunities

Amount of time to return property to residential use

Changes in weather patterns

Local building codes

Litigation trends

Trends in jury awards

Court interpretation of policy provisions (such as occurrence definition, or wind versus flooding)

Lags in reporting claims (e.g., winter damage to summer homes, hidden damage after an earthquake, hail damage to roofs and/or equipment on roofs)

Court or legislative changes to the statute of limitations

Catastrophe risk factors

Physical concentration of policyholders

Availability and cost of local contractors

Local building codes

Quality of construction of damaged homes

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Amount of time to return property to residential use

For the more severe catastrophic events, "demand surge" inflation, which refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services

Homeowners book of business risk factors

Policy provisions mix (e.g., deductibles, policy limits, endorsements, etc.)

Degree of concentration of policyholders

Changes in underwriting standards

Changes in the use of credit data for rating and underwriting

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for homeowners and personal lines other, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in claims and claim adjustment expense reserves.

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Historically, the one-year change in the reserve estimate for this product line (excluding the umbrella line of business, which for statutory reporting purposes is included with the general liability line of business) over the last nine years has varied from 17% to 3% (averaging 10%) for the Company, and from 7% to 2% (averaging 5%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Homeowners and personal lines other reserves represent approximately 2% of the Company's total claims and claim adjustment expense reserves.

This line combines both liability and property coverages; however, the majority of the reserves relate to property. While property is considered a short tail coverage, the one year change for property can be more volatile than that for the longer tail product lines. This is due to the fact that the majority of the reserve for property relates to the most recent accident year, which is subject to the most uncertainty for all product lines. This recent accident year uncertainty is relevant to property because of weather related events which, notwithstanding 2010 and 2011 experience, tend to be concentrated in the second half of the year, and generally are not completely resolved until the following year. Reserve estimates associated with major catastrophes may take even longer to resolve.

The Company's change in reserve estimate for this product line (excluding the umbrella line of business) was 3% for 2016, 16% for 2015 and 16% for 2014. The 2016 change primarily reflected modestly worse than expected loss experience for liability coverages for accident years 2012 through 2014. The 2015 change primarily reflected better than expected loss experience for liability coverages for accident years 2011 through 2014, and for non-catastrophe weather-related losses and non-weather-related losses for accident year 2014. The 2014 change primarily reflected better than expected loss experience for non-catastrophe weather-related losses for accident year 2013 and for catastrophe losses for accident years 2011 through 2013.

International and Other

International and other includes products written by the Company's international operations, as well as all other products not explicitly discussed above. The principal component of "other" claim reserves is assumed reinsurance written on an excess-of-loss basis, which may include reinsurance of non-U.S. exposures, and is runoff business.

International and other claim liabilities result from a mix of coverages, currencies and jurisdictions/countries. The common characteristic is the need to customize the analysis to the individual component, and the inability to rely on data characterizations and reporting requirements in the U.S. statutory reporting framework.

Due to changes in the business mix for this line over time, including the 2013 acquisition of Dominion, the recently incurred claim liabilities are relatively shorter tail (due to both the products and the jurisdictions involved, e.g., Canada, the Republic of Ireland and the United Kingdom), while the older liabilities include some from runoff operations that are extremely long tail (e.g., U.S. excess liabilities reinsured through the London market, and several underwriting pools in runoff). The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction, the distribution system (e.g., underwriting pool versus direct) and the proximity of the insurance sale to the insured hazard (e.g., insured and insurer located in different countries). In particular, liabilities arising from the underwriting pools in runoff may result in significant reporting lags, settlement lags and claim complexity, due to the need to coordinate with other pool members or co-insurers through a broker or lead-insurer for claim settlement purposes.

International reserves are generally analyzed by country and general coverage category (e.g., General Liability in Canada, Commercial Property in the United Kingdom, etc.). The business is also generally split by direct versus assumed reinsurance for a given coverage. Where the underlying

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insured hazard is outside the United States, the underlying coverages are generally similar to those described under the Homeowners, Personal Automobile, Commercial Automobile, General Liability, Commercial Property and Surety discussions above, taking into account differences in the legal environment and differences in terms and conditions. However, statutory coverage differences exist amongst various jurisdictions. For example, in some jurisdictions there are no aggregate policy limits on certain liability coverages.

Other reserves, primarily assumed reinsurance in runoff, are generally analyzed by program/pool, treaty type, and general coverage category (e.g., General Liability excess of loss reinsurance). Excess exposure requires the insured to "prove" not only claims under the policy, but also the prior payment of claims reaching up to the excess policy's attachment point.

Examples of common risk factors, or perceptions thereof, that could change and, thus, affect the required International and other reserves (beyond those included in the general discussion section, and in the Personal Automobile, Homeowners, General Liability, Commercial Property, Commercial Automobile and Surety discussions above) include:

International and other risk factors

Changes in claim handling procedures, including those of the primary carriers

Changes in policy provisions or court interpretation of such provision

Economic trends

New theories of liability

Trends in jury awards

Changes in the propensity to sue

Changes in statutes of limitations

Changes in the underlying court system

Distortions from losses resulting from large single accounts or single issues

Changes in tort law

Changes in claim adjuster office structure (causing distortions in the data)

Changes in foreign currency exchange rates

International and other book of business risk factors

Changes in policy provisions (e.g., deductibles, policy limits, endorsements, "claims-made" language)

Changes in underwriting standards

Product mix (e.g., size of account, industries insured, jurisdiction mix)

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for International and other (excluding asbestos and environmental), a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.2% increase (decrease) in claims and claim adjustment expense reserves. International and other reserves (excluding asbestos and environmental) represent approximately 8% of the Company's total claims and claim adjustment expense reserves.

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International and other represents a combination of different product lines, some of which are in runoff. Comparative historical information is not available for international product lines as insurers domiciled outside of the United States do not file U.S. statutory reports. Comparative historical information on runoff business is not indicative of reasonably possible one-year changes in the reserve estimate for this mix of runoff business. Accordingly, the Company has not included comparative analyses for International and other.

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated claim liability. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. In addition, in the ordinary course of business, the Company becomes involved in coverage disputes with its reinsurers. Some of these disputes could result in lawsuits and arbitrations brought by or against the reinsurers to determine the Company's rights and obligations under the various reinsurance agreements. The Company employs dedicated specialists and aggressive strategies to manage reinsurance collections and disputes.

The Company has entered into a reinsurance contract in connection with a catastrophe bond issued by Long Point Re III. This contract meets the requirements to be accounted for as reinsurance in accordance with guidance for accounting for reinsurance contracts. The catastrophe bond is described in more detail in "Item 1 Business Catastrophe Reinsurance."

The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. From time to time, as a result of the long-tailed nature of the underlying liabilities, coverage complexities and potential for disputes, the Company considers the commutation of reinsurance contracts. Changes in estimated reinsurance recoverables and commutation activity could result in additional income statement charges.

Recoverables attributable to structured settlements relate primarily to personal injury claims, of which workers' compensation claims comprise a significant portion, for which the Company has purchased annuities and remains contingently liable in the event of a default by the companies issuing the annuities. Recoverables attributable to mandatory pools and associations relate primarily to workers' compensation service business. These recoverables are supported by the participating insurance companies' obligation to pay a pro rata share based on each company's voluntary market share of written premium in each state in which it is a pool participant. In the event a member of a mandatory pool or association defaults on its share of the pool's or association's obligations, the other members' share of such obligation increases proportionally.

For a discussion of a pending reinsurance dispute pertaining to a portion of the Company's reinsurance recoverables, see note 16 of notes to the consolidated financial statements.

Investment Valuation and Impairments

Valuation of Investments Reported at Fair Value in Financial Statements

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.

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The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated, willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

See note 4 of notes to the consolidated financial statements for a further discussion of the determination of fair value of investments.

Investment Impairments

See note 1 of notes to the consolidated financial statements for a discussion of investment impairments.

Due to the subjective nature of the Company's analysis and estimates of future cash flows, along with the judgment that must be applied in the analysis, it is possible that the Company could reach a different conclusion whether or not to impair a security if it had access to additional information about the issuer. Additionally, it is possible that the issuer's actual ability to meet contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods.

Goodwill and Other Intangible Assets Impairments

See note 1 of notes to the consolidated financial statements for a discussion of impairments of goodwill and other intangible assets.

OTHER UNCERTAINTIES

For a discussion of other risks and uncertainties that could impact the Company's results of operations or financial position, see note 16 of notes to the consolidated financial statements and "Item 1A Risk Factors."

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, margins, net and operating income, investment income and performance, loss costs, return on equity and expected current returns and combined ratios);

share repurchase plans;

future pension plan contributions;

the sufficiency of the Company's asbestos and other reserves;

the impact of emerging claims issues as well as other insurance and non-insurance litigation;

the cost and availability of reinsurance coverage;

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catastrophe losses;

the impact of investment, economic (including inflation, potential changes in tax law and rapid changes in commodity prices, such as a significant decline in oil and gas prices, as well as fluctuations in foreign currency exchange rates) and underwriting market conditions; and

strategic initiatives to improve profitability and competitiveness.

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.

For a discussion of some of the factors that could cause actual results to differ, see "Item 1A Risk Factors" and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 its forward-looking statements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates (inclusive of credit spreads), foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The following is a discussion of the Company's primary market risk exposures and how those exposures are managed as of December 31, 2016. The Company's market risk sensitive instruments, including derivatives, are primarily entered into for purposes other than trading.

The carrying value of the Company's investment portfolio at December 31, 2016 and 2015 was \$70.49 billion and \$70.47 billion, respectively, of which 86% was invested in fixed maturity securities at both dates. At December 31, 2016 and 2015, approximately 7.1% and 7.4%, respectively, of the Company's invested assets were denominated in foreign currencies. The Company's exposure to equity price risk is not significant. The Company has no direct commodity risk and is not a party to any credit default swaps.

The primary market risks to the investment portfolio are interest rate risk and credit risk associated with investments in fixed maturity securities. The portfolio duration is primarily managed through cash market transactions and treasury futures transactions. For additional information regarding the Company's investments, see notes 3 and 4 of notes to the consolidated financial statements as well as the "Investment Portfolio" and "Outlook" sections of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

The primary market risk for all of the Company's debt is interest rate risk at the time of refinancing. The Company monitors the interest rate environment and evaluates refinancing opportunities as maturity dates approach. For additional information regarding the Company's debt, see note 8 of notes to the consolidated financial statements as well as the "Liquidity and Capital Resources" section of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company's foreign exchange market risk exposure is concentrated in the Company's invested assets, insurance reserves and shareholders' equity denominated in foreign currencies. Cash flows from

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the Company's foreign operations are the primary source of funds for the purchase of investments denominated in foreign currencies. The Company purchases these investments primarily to fund insurance reserves and other liabilities denominated in the same currency, effectively reducing its foreign currency exchange rate exposure. Invested assets denominated in the Canadian dollar comprised approximately 4.4% of the total invested assets at both December 31, 2016 and 2015. Invested assets denominated in the British Pound Sterling comprised approximately 1.9% and 2.1% of total invested assets at December 31, 2016 and 2015, respectively. Invested assets denominated in other currencies at December 31, 2016 and 2015 were not material.

There were no other significant changes in the Company's primary market risk exposures or in how those exposures were managed for the year ended December 31, 2016 compared to the year ended December 31, 2015. The Company does not currently anticipate significant changes in its primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

SENSITIVITY ANALYSIS

Sensitivity analysis is defined as the measurement of potential loss in future earnings, fair values or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected period of time. In the Company's sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible near-term changes in those rates. "Near-term" means a period of time going forward up to one year from the date of the consolidated financial statements. Actual results may differ from the hypothetical change in market rates assumed in this disclosure, especially since this sensitivity analysis does not reflect the results of any actions that would be taken by the Company to mitigate such hypothetical losses in fair value.

Interest Rate Risk

In this sensitivity analysis model, the Company uses fair values to measure its potential loss. The sensitivity analysis model includes the following financial instruments entered into for purposes other than trading: fixed maturities, non-redeemable preferred stocks, mortgage loans, short-term securities, debt and derivative financial instruments. The primary market risk to the Company's market sensitive instruments is interest rate risk (inclusive of credit spreads). The sensitivity analysis model uses various basis point changes in interest rates to measure the hypothetical change in fair value of financial instruments included in the model.

For invested assets with primary exposure to interest rate risk, estimates of portfolio duration and convexity are used to model the loss of fair value that would be expected to result from a parallel increase in interest rates. Durations on invested assets are adjusted for call, put and interest rate reset features. Durations on tax-exempt securities are adjusted for the fact that the yields on such securities do not normally move in lockstep with changes in the U.S. Treasury curve. Fixed maturity portfolio durations are calculated on a market value weighted basis, including accrued interest, using holdings as of December 31, 2016 and 2015.

For debt, the change in fair value is determined by calculating hypothetical December 31, 2016 and 2015 ending prices based on yields adjusted to reflect a 100 basis point change, comparing such hypothetical ending prices to actual ending prices, and multiplying the difference by the par or securities outstanding.

The sensitivity analysis model used by the Company produces a loss in fair value of market sensitive instruments of approximately \$2.19 billion and \$2.00 billion based on a 100 basis point increase in interest rates at December 31, 2016 and 2015, respectively.

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The loss estimates do not take into account the impact of possible interventions that the Company might reasonably undertake in order to mitigate or avoid losses that would result from emerging interest rate trends. In addition, the loss value only reflects the impact of an interest rate increase on the fair value of the Company's financial instruments.

Foreign Currency Exchange Rate Risk

The Company uses fair values of investment securities to measure its potential loss from foreign denominated investments. A hypothetical 10% reduction in value of foreign denominated investments is used to estimate the impact on the market value of the foreign denominated holdings. The Company's analysis indicates that a hypothetical 10% reduction in the value of foreign denominated investments would be expected to produce a loss in fair value of approximately \$502 million and \$522 million at December 31, 2016 and 2015, respectively.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Travelers Companies, Inc.:

We have audited the accompanying consolidated balance sheet of The Travelers Companies, Inc. and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Travelers Companies, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Travelers Companies, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 16, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP
New York, New York
February 16, 2017

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)

For the year ended December 31,	2016	2015	2014
Revenues			
Premiums	\$ 24,534	\$ 23,874	\$ 23,713
Net investment income	2,302	2,379	2,787
Fee income	458	460	450
Net realized investment gains(1)	68	3	79
Other revenues	263	99	145
Total revenues	27,625	26,815	27,174
Claims and expenses			
Claims and claim adjustment expenses	15,070	13,723	13,870
Amortization of deferred acquisition costs	3,985	3,885	3,882
General and administrative expenses	4,154	4,094	3,964
Interest expense	363	373	369
Total claims and expenses	23,572	22,075	22,085
Income before income taxes	4,053	4,740	5,089
Income tax expense	1,039	1,301	1,397
Net income	\$ 3,014	\$ 3,439	\$ 3,692
Net income per share			
Basic	\$ 10.39	\$ 10.99	\$ 10.82
Diluted	\$ 10.28	\$ 10.88	\$ 10.70
Weighted average number of common shares outstanding			
Basic	288.1	310.6	338.8
Diluted	291.0	313.9	342.5
Cash dividends declared per common share	\$ 2.62	\$ 2.38	\$ 2.15

(1)

Total other-than-temporary impairment (OTTI) losses were \$(40) million, \$(54) million and \$(22) million for the years ended December 31, 2016, 2015 and 2014, respectively. Of total OTTI, credit losses of \$(29) million, \$(52) million and \$(26) million for the years ended December 31, 2016, 2015 and 2014, respectively, were recognized in net realized investment gains. In addition, unrealized gains (losses) from other changes in total OTTI of \$(11) million, \$(2) million and \$4 million for the years ended December 31, 2016, 2015 and 2014, respectively, were recognized in other comprehensive income (loss) as part of changes in net unrealized gains on investment securities having credit losses recognized in the consolidated statement of income.

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

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(in millions)

For the year ended December 31,	2016	2015	2014
Net income	\$ 3,014	\$ 3,439	\$ 3,692
Other comprehensive income (loss):			
Changes in net unrealized gains on investment securities:			
Having no credit losses recognized in the consolidated statement of income	(883)	(1,020)	976
Having credit losses recognized in the consolidated statement of income	21	(14)	2
Net changes in benefit plan assets and obligations	16	66	(494)
Net changes in unrealized foreign currency translation	(41)	(461)	(289)
Other comprehensive income (loss) before income taxes	(887)	(1,429)	195
Income tax expense (benefit)	(289)	(392)	125
Other comprehensive income (loss), net of taxes	(598)	(1,037)	70
Comprehensive income	\$ 2,416	\$ 2,402	\$ 3,762

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)

At December 31,	2016	2015
Assets		
Fixed maturities, available for sale, at fair value (amortized cost \$59,650 and \$58,878)	\$ 60,515	\$ 60,658
Equity securities, available for sale, at fair value (cost \$504 and \$528)	732	705
Real estate investments	928	989
Short-term securities	4,865	4,671
Other investments	3,448	3,447
Total investments	70,488	70,470
Cash	307	380
Investment income accrued	630	642
Premiums receivable	6,722	6,437
Reinsurance recoverables	8,287	8,910
Ceded unearned premiums	589	656
Deferred acquisition costs	1,923	1,849
Deferred taxes	465	296
Contractholder receivables	4,609	4,374
Goodwill	3,580	3,573
Other intangible assets	268	279
Other assets	2,377	2,318
Total assets	\$ 100,245	\$ 100,184
Liabilities		
Claims and claim adjustment expense reserves	\$ 47,949	\$ 48,295
Unearned premium reserves	12,329	11,971
Contractholder payables	4,609	4,374
Payables for reinsurance premiums	273	296
Debt	6,437	6,344
Other liabilities	5,427	5,306
Total liabilities	77,024	76,586
Shareholders' equity		
Common stock (1,750.0 shares authorized; 279.6 and 295.9 shares issued and outstanding)	22,614	22,172
Retained earnings	32,196	29,945
Accumulated other comprehensive loss	(755)	(157)
Treasury stock, at cost (489.5 and 467.6 shares)	(30,834)	(28,362)
Total shareholders' equity	23,221	23,598
Total liabilities and shareholders' equity	\$ 100,245	\$ 100,184

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

(in millions)

For the year ended December 31,	2016	2015	2014
Common stock			
Balance, beginning of year	\$ 22,172	\$ 21,843	\$ 21,500
Employee share-based compensation	287	133	149
Compensation amortization under share-based plans and other changes	155	196	194
Balance, end of year	22,614	22,172	21,843
Retained earnings			
Balance, beginning of year	29,945	27,251	24,291
Net income	3,014	3,439	3,692
Dividends	(762)	(744)	(735)
Other	(1)	(1)	3
Balance, end of year	32,196	29,945	27,251
Accumulated other comprehensive income (loss), net of tax			
Balance, beginning of year	(157)	880	810
Other comprehensive income (loss)	(598)	(1,037)	70
Balance, end of year	(755)	(157)	880
Treasury stock, at cost			
Balance, beginning of year	(28,362)	(25,138)	(21,805)
Treasury stock acquired share repurchase authorization	(2,400)	(3,150)	(3,275)
Net shares acquired related to employee share-based compensation plans	(72)	(74)	(58)
Balance, end of year	(30,834)	(28,362)	(25,138)
Total shareholders' equity	\$ 23,221	\$ 23,598	\$ 24,836

Common shares outstanding

Balance, beginning of year	295.9	322.2	353.5
Treasury stock acquired share repurchase authorization	(21.3)	(29.6)	(35.1)
Net shares issued under employee share-based compensation plans	5.0	3.3	3.8
Balance, end of year	279.6	295.9	322.2

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

(in millions)

For the year ended December 31,	2016	2015	2014
Cash flows from operating activities			
Net income	\$ 3,014	\$ 3,439	\$ 3,692
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized investment gains	(68)	(3)	(79)
Depreciation and amortization	826	818	864
Deferred federal income tax expense	110	117	121
Amortization of deferred acquisition costs	3,985	3,885	3,882
Equity in income from other investments	(232)	(218)	(486)
Premiums receivable	(286)	(185)	(207)
Reinsurance recoverables	610	272	400
Deferred acquisition costs	(4,061)	(3,920)	(3,926)
Claims and claim adjustment expense reserves	(257)	(1,075)	(704)
Unearned premium reserves	372	248	73
Other	189	56	63
Net cash provided by operating activities	4,202	3,434	3,693
Cash flows from investing activities			
Proceeds from maturities of fixed maturities	8,975	11,116	10,894
Proceeds from sales of investments:			
Fixed maturities	1,417	1,950	1,049
Equity securities	92	59	158
Real estate investments	69	31	15
Other investments	839	713	855
Purchases of investments:			
Fixed maturities	(11,609)	(12,090)	(11,325)
Equity securities	(51)	(49)	(52)
Real estate investments	(48)	(123)	(48)
Other investments	(580)	(534)	(554)
Net purchases of short-term securities	(199)	(326)	(498)
Securities transactions in the course of settlement	(21)	(113)	82
Acquisitions, net of cash acquired		(13)	(12)
Other	(344)	(304)	(358)
Net cash provided by (used in) investing activities	(1,460)	317	206
Cash flows from financing activities			
Treasury stock acquired share repurchase authorization	(2,400)	(3,150)	(3,275)
Treasury stock acquired net employee share-based compensation	(72)	(74)	(57)
Dividends paid to shareholders	(757)	(739)	(729)
Payment of debt	(400)	(400)	
Issuance of debt	491	392	
Issuance of common stock-employee share options	332	183	195
Excess tax benefits from share-based payment arrangements		55	57
Net cash used in financing activities	(2,806)	(3,733)	(3,809)
Effect of exchange rate changes on cash	(9)	(12)	(10)
Net increase (decrease) in cash	(73)	6	80
Cash at beginning of year	380	374	294
Cash at end of year	\$ 307	\$ 380	\$ 374

Supplemental disclosure of cash flow information

Income taxes paid	\$	892	\$	1,207	\$	1,147
Interest paid	\$	358	\$	365	\$	365

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (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 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 2015 and 2014 financial statements to conform to the 2016 presentation. All material intercompany transactions and balances have been eliminated.

Adoption of Accounting Standards

Compensation Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the Financial Accounting Standards Board (FASB) issued updated guidance to resolve diversity in practice concerning employee share-based payments that contain performance targets that could be achieved after the requisite service period. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. As such, the performance target that affects vesting should not be reflected in estimating the fair value of the award at the grant date. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered. If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The updated guidance was effective for reporting periods beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Presentation of Financial Statements: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued guidance to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when an entity must disclose certain relevant conditions and events. The new guidance requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). The new guidance allows the entity to consider the mitigating effects of management's plans that will alleviate the substantial doubt and requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans. If conditions or events raise substantial doubt that is not alleviated, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions. The updated guidance was effective for annual periods ending after December 15, 2016, and interim and annual periods thereafter. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity.

Derivatives and Hedging: Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued updated guidance to clarify when the separation of certain embedded derivative features in a hybrid financial instrument that is issued in the form of a share is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract. Specifically, the updated guidance clarifies that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract.

Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The updated guidance was effective for reporting periods beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Consolidation: Amendments to the Consolidation Analysis

In February 2015, the FASB issued updated guidance that makes targeted amendments to the current consolidation accounting guidance. The update is in response to accounting complexity concerns, particularly from the asset management industry. The guidance simplifies consolidation accounting by reducing the number of approaches to consolidation, provides a scope exception to registered money market funds and similar unregistered money market funds and ends the indefinite deferral granted to investment companies from applying the variable interest entity guidance. The updated guidance was effective for reporting periods beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The updated guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The updated guidance was effective for reporting periods beginning after December 15, 2015. The updated guidance is consistent with the Company's accounting policy and its adoption did not have any effect on the Company's results of operations, financial position or liquidity.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued updated guidance regarding business combinations that requires an acquirer to recognize post-close measurement adjustments for provisional amounts in the period the adjustment amounts are determined rather than retrospectively. The acquirer is also required to recognize, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the provisional amount, calculated as if the accounting had been completed at the acquisition date. The updated guidance is to be applied prospectively effective for reporting periods beginning after December 15, 2015. In connection with business combinations which have already been completed, the adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Compensation Stock Compensation: Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued updated guidance to simplify several aspects of accounting for share-based payment transactions as follows:

Accounting for Income Taxes

Under current accounting guidance, if the deduction for a share-based payment award for tax purposes exceeds, or is less than, the compensation cost recognized for financial reporting purposes, the resulting excess tax benefit, or tax deficiency, is reported as part of additional paid-in capital. Under the updated guidance, these excess tax benefits, or tax deficiencies, are reported as part of income tax expense or benefit in the income statement. The updated guidance also removes the requirement to delay recognition of any excess tax benefit when there are no current taxes payable to which the benefit would be applied. The tax-related cash flows resulting from share-based payments are to be included with other income tax cash flows as an operating activity rather than being reported separately as a financing activity.

Forfeitures

The updated guidance permits an entity to make an accounting policy election to either account for forfeitures when they occur or continue to apply the current method of accruing the compensation cost based on the number of awards that are expected to vest.

Minimum Statutory Tax Withholding Requirements

The updated guidance changes the threshold amount an entity can withhold for taxes when settling an equity award and still qualify for equity classification. A company can withhold up to the maximum statutory tax rates in the employees' applicable jurisdiction rather than withholding up to the employers' minimum statutory withholding requirement. The update also clarifies that all cash payments made to taxing authorities on behalf of employees for withheld shares are to be presented in financing activities on the statement of cash flows.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transition

The updated guidance is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted in any interim period; if early adoption is elected, the entity must adopt all of the amendments in the same reporting period and reflect any adjustments as of the beginning of the fiscal year.

The Company adopted the updated guidance effective January 1, 2016. With respect to the forfeiture accounting policy election, the Company elected to retain its policy of accruing the compensation cost based on the number of awards that are expected to vest. The adoption did not result in any cumulative effect adjustments or restatement and did not have a material effect on the Company's results of operations, financial position or liquidity.

Other Accounting Standards Not Yet Adopted

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company's fee income related to providing claims and policy management services as well as claim and loss prevention services will be subject to this updated guidance.

The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

The updated guidance is effective for the quarter ending March 31, 2018. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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

In January 2016, the 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 changes in fair value recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. 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 is effective for the quarter ending March 31, 2018 and will require recognition of a cumulative effect adjustment at adoption. Based on the equity investments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance were able to be

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the equity investments held by the Company and the economic conditions at that time.

Leases

In February 2016, the FASB issued updated guidance to require lessees to recognize a right-to-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-to-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-to-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

The updated guidance is effective for reporting periods beginning after December 15, 2018, and will require that the earliest comparative period presented include the measurement and recognition of existing leases with an adjustment to equity as if the updated guidance had always been applied. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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

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

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

In March 2016, the FASB issued updated guidance clarifying that when a call (put) option in a debt instrument is contingently exercisable, the event that triggers the ability to exercise the option is considered to be clearly and closely related to the debt instrument (i.e., the economic characteristics and risks of the option are related to interest rates or credit risks) and the entity does not have to assess whether the option should be accounted for separately. The updated guidance is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial Instruments Credit Losses: Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance were able to be adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

Intangibles Goodwill and Other

In January 2017, the FASB issued updated guidance that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit's fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance). The implied fair value of goodwill is currently determined in Step 2 by deducting the fair value of all assets and liabilities of the reporting unit (determined in the same manner as a business combination) from the reporting unit's fair value as determined in Step 1 (including any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1). The updated guidance requires an entity to perform its annual, or interim, impairment test by either: (1) an initial qualitative assessment of factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact a reporting unit's fair value and lead to the determination that it is more likely than not that the reporting unit's fair value is less than its carrying value, including goodwill (consistent with current guidance), or (2) applying Step 1.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The updated guidance is effective for reporting periods beginning after December 15, 2019 and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Accounting Policies

Investments

Fixed Maturity and Equity Securities

Fixed maturities include bonds, notes and redeemable preferred stocks. Fixed maturities, including instruments subject to securities lending agreements, are classified as available for sale and are reported at fair value, with unrealized investment gains and losses, net of income taxes, charged or credited directly to other comprehensive income. Equity securities, which include public common and non-redeemable preferred stocks, are classified as available for sale and are reported at fair value with unrealized gains and losses, net of income taxes, charged or credited directly to other comprehensive income.

Real Estate Investments

The Company's real estate investments include warehouses, office buildings and other commercial land and properties that are directly owned. Real estate is recorded on the purchase date at the purchase price, which generally represents fair value, and is supported by internal analysis or external appraisals that use discounted cash flow analyses and other acceptable valuation techniques. Real estate held for investment purposes is subsequently carried at cost less accumulated depreciation.

Buildings are depreciated on a straight-line basis over the shorter of the expected useful life of the building or 39 years. Real estate held for sale is carried at lower of cost or fair value, less estimated costs to sell.

Short-term Securities

Short-term securities have an original maturity of less than one year and are carried at amortized cost, which approximates fair value.

Other Investments

Investments in Private Equity Limited Partnerships, Hedge Funds and Real Estate Partnerships

The Company uses the equity method of accounting for investments in private equity limited partnerships, hedge funds and real estate partnerships. The partnerships and the hedge funds generally report investments on their balance sheet at fair value. The financial statements prepared by the investee are received by the Company on a lag basis, with the lag period generally dependent upon the type of underlying investments. The private equity and real estate partnerships provide financial information quarterly which is generally available to investors, including the Company, within three to six months following the date of the reporting period. The hedge funds provide financial information monthly, which is generally available to investors within one month following the date of the reporting period. The Company regularly requests financial information from the partnerships prior to the receipt

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of the partnerships' financial statements and records any material information obtained from these requests in its consolidated financial statements.

Other

Also included in other investments are non-public common equities, preferred equities and derivatives. Non-public common equities and preferred equities are reported at fair value with changes in fair value, net of income taxes, charged or credited directly to other comprehensive income. The Company's derivative financial instruments are carried at fair value, with the changes in fair value reflected in the consolidated statement of income in net realized investment gains (losses). For a further discussion of the derivatives used by the Company, see note 3.

Net Investment Income

Investment income from fixed maturities is recognized based on the constant effective yield method which includes an adjustment for estimated principal pre-payments, if any. The effective yield used to determine amortization for fixed maturities subject to prepayment risk (e.g., asset-backed, loan-backed and structured securities) is recalculated and adjusted periodically based upon actual historical and/or projected future cash flows, which are obtained from a widely-accepted securities data provider. The adjustments to the yield for highly rated prepayable fixed maturities are accounted for using the retrospective method. The adjustments to the yield for non-highly rated prepayable fixed maturities are accounted for using the prospective method. Dividends on equity securities (including those with transfer restrictions) are recognized in income when declared. Rental income on real estate is recognized on a straight-line basis over the lease term. See the section titled: Real Estate in note 3 for further discussion. Investments in private equity limited partnerships, hedge funds, real estate partnerships and joint ventures are accounted for using the equity method of accounting, whereby the Company's share of the investee's earnings or losses in the fund is reported in net investment income.

Accrual of income is suspended on non-securitized fixed maturities that are in default, or on which it is likely that future payments will not be made as scheduled. Interest income on investments in default is recognized only when payments are received. Investments included in the consolidated balance sheet that were not income-producing for the preceding 12 months were not material.

For fixed maturities where the Company records an other-than-temporary impairment, a determination is made as to the cause of the impairment and whether the Company expects a recovery in the value. For fixed maturities where the Company expects a recovery in value, not necessarily to par, the constant effective yield method is utilized, and the investment is amortized to the expected recovery amount.

Investment Gains and Losses

Net realized investment gains and losses are included as a component of pre-tax revenues based upon specific identification of the investments sold on the trade date. Included in net realized investment gains (losses) are other-than-temporary impairment losses on invested assets other than those investments accounted for using the equity method of accounting as described in the "Investment Impairments" section that follows.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Impairments

The Company conducts a periodic review to identify and evaluate invested assets having other-than-temporary impairments. Some of the factors considered in identifying other-than-temporary impairments include: (1) for fixed maturity investments, whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value; (2) for non-fixed maturity investments, the Company's ability and intent to retain the investment for a reasonable period of time sufficient to allow for an anticipated recovery in value; (3) the likelihood of the recoverability of principal and interest for fixed maturity securities (i.e., whether there is a credit loss) or cost for equity securities; (4) the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities or cost for equity securities; and (5) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Other-Than-Temporary Impairments of Fixed Maturities and Equity Securities

For fixed maturity investments that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment from the amount related to all other factors and reports the credit loss component in net realized investment gains (losses). The impairment related to all other factors is reported in other comprehensive income.

For equity securities (including public common and non-redeemable preferred stock) and for fixed maturity investments the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount of the impairment is included in net realized investment gains (losses).

Upon recognizing an other-than-temporary impairment, the new cost basis of the investment is the previous amortized cost basis less the other-than-temporary impairment recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value; however, for fixed maturity investments the difference between the new cost basis and the expected cash flows is accreted on a quarterly basis to net investment income over the remaining expected life of the investment.

Determination of Credit Loss Fixed Maturities

The Company determines the credit loss component of fixed maturity investments by utilizing discounted cash flow modeling to determine the present value of the security and comparing the present value with the amortized cost of the security. If the amortized cost is greater than the present value of the expected cash flows, the difference is considered a credit loss and recognized in net realized investment gains (losses).

For non-structured fixed maturities (U.S. Treasury securities, obligations of U.S. government and government agencies and authorities, obligations of states, municipalities and political subdivisions, debt securities issued by foreign governments and certain corporate debt), the estimate of expected cash flows is determined by projecting a recovery value and a recovery time frame and assessing whether further principal and interest will be received. The determination of recovery value incorporates an

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

issuer valuation assumption utilizing one or a combination of valuation methods as deemed appropriate by the Company. The Company determines the undiscounted recovery value by allocating the estimated value of the issuer to the Company's assessment of the priority of claims. The present value of the cash flows is determined by applying the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment) and an estimated recovery time frame. Generally, that time frame for securities for which the issuer is in bankruptcy is 12 months. For securities for which the issuer is financially troubled but not in bankruptcy, that time frame is generally 24 months. Included in the present value calculation are expected principal and interest payments; however, for securities for which the issuer is classified as bankrupt or in default, the present value calculation assumes no interest payments and a single recovery amount.

In estimating the recovery value, significant judgment is involved in the development of assumptions relating to a myriad of factors related to the issuer including, but not limited to, revenue, margin and earnings projections, the likely market or liquidation values of assets, potential additional debt to be incurred pre- or post-bankruptcy/restructuring, the ability to shift existing or new debt to different priority layers, the amount of restructuring/bankruptcy expenses, the size and priority of unfunded pension obligations, litigation or other contingent claims, the treatment of intercompany claims and the likely outcome with respect to inter-creditor conflicts.

For structured fixed maturity securities (primarily residential and commercial mortgage-backed securities and asset-backed securities), the Company estimates the present value of the security by projecting future cash flows of the assets underlying the securitization, allocating the flows to the various tranches based on the structure of the securitization and determining the present value of the cash flows using the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment or changes in expected cash flows). The Company incorporates levels of delinquencies, defaults and severities as well as credit attributes of the remaining assets in the securitization, along with other economic data, to arrive at its best estimate of the parameters applied to the assets underlying the securitization. In order to project cash flows, the following assumptions are applied to the assets underlying the securitization: (1) voluntary prepayment rates, (2) default rates and (3) loss severity. The key assumptions made for the Prime, Alt-A and first-lien Sub-Prime mortgage-backed securities at December 31, 2016 were as follows:

(at December 31, 2016)	Prime	Alt-A	Sub-Prime
Voluntary prepayment rates	0% - 35%	4% - 15%	3% - 12%
Percentage of remaining pool liquidated due to defaults	0% - 46%	20% - 73%	22% - 52%
Loss severity	30% - 65%	42% - 90%	75% - 110%
Real Estate Investments			

On at least an annual basis, the Company obtains independent appraisals for substantially all of its real estate investments. In addition, the carrying value of all real estate investments is reviewed for impairment on a quarterly basis or when events or changes in circumstances indicate that the carrying amount may not be recoverable. The review for impairment considers the valuation from the independent appraisal, when applicable, and incorporates an estimate of the undiscounted cash flows

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expected to result from the use and eventual disposition of the real estate property. An impairment loss is recognized if the expected future undiscounted cash flows are less than the carrying value of the real estate property. The impairment loss is the amount by which the carrying amount exceeds fair value.

Other Investments

Investments in Private Equity Limited Partnerships, Hedge Funds and Real Estate Partnerships

The Company reviews its investments in private equity limited partnerships, hedge funds and real estate partnerships for impairment no less frequently than quarterly and monitors the performance throughout the year through discussions with the managers/general partners. If the Company becomes aware of an impairment of a partnership's investments at the balance sheet date prior to receiving the partnership's financial statements, it will recognize an impairment by recording a reduction in the carrying value of the partnership with a corresponding charge to net investment income.

Changes in Intent to Sell Temporarily Impaired Assets

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that it did not intend to sell at the balance sheet date. Conversely, the Company may not sell invested assets that it asserted that it intended to sell at the balance sheet date. Such changes in intent are due to events occurring subsequent to the balance sheet date. The types of events that may result in a change in intent include, but are not limited to, significant changes in the economic facts and circumstances related to the invested asset (e.g., a downgrade or upgrade from a rating agency), significant unforeseen changes in liquidity needs, or changes in tax laws or the regulatory environment.

Securities Lending

The Company has engaged in securities lending activities from which it generates net investment income by lending certain of its investments to other institutions for short periods of time. Borrowers of these securities provide collateral equal to at least 102% of the market value of the loaned securities plus accrued interest. This collateral is held by a third-party custodian, and the Company has the right to access the collateral only in the event that the institution borrowing the Company's securities is in default under the lending agreement. Therefore, the Company does not recognize the receipt of the collateral held by the third-party custodian or the obligation to return the collateral. The loaned securities remain a recorded asset of the Company. The Company accepts only cash as collateral for securities on loan and restricts the manner in which that cash is invested.

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated claim liability. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance for estimated uncollectible reinsurance recoverables. Any subsequent collections of amounts previously written off are reported as part of claims and claim adjustment expenses. The Company evaluates and monitors the

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies.

Deferred Acquisition Costs

Incremental direct costs of acquired, new and renewal insurance contracts, consisting of commissions (other than contingent commissions) and premium-related taxes, are capitalized and charged to expense pro rata over the contract periods in which the related premiums are earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income and, if not, are charged to expense. Future investment income attributable to related premiums is taken into account in measuring the recoverability of the carrying value of this asset. All other acquisition expenses are charged to operations as incurred.

Contractholder Receivables and Payables

Under certain workers' compensation insurance contracts with deductible features, the Company is obligated to pay the claimant for the full amount of the claim. The Company is subsequently reimbursed by the policyholder for the deductible amount. These amounts are included on a gross basis in the consolidated balance sheet in contractholder payables and contractholder receivables, respectively.

Goodwill and Other Intangible Assets

The Company performs a review, on at least an annual basis, of goodwill held by the reporting units which are the Company's three operating and reportable segments: Business and International Insurance; Bond & Specialty Insurance; and Personal Insurance. The Company estimates the fair value of its reporting units and compares it to their carrying value, including goodwill. If the carrying values of the reporting units were to exceed their fair value, the amount of the impairment would be calculated and goodwill adjusted accordingly.

The Company uses a discounted cash flow model to estimate the fair value of its reporting units. The discounted cash flow model is an income approach to valuation that is based on a detailed cash flow analysis for deriving a current fair value of reporting units and is representative of the Company's reporting units' current and expected future financial performance. The discount rate assumptions reflect the Company's assessment of the risks inherent in the projected future cash flows and the Company's weighted-average cost of capital, and are compared against available market data for reasonableness.

Other indefinite-lived intangible assets held by the Company are also reviewed for impairment on at least an annual basis. The classification of the asset as indefinite-lived is reassessed and an impairment is recognized if the carrying amount of the asset exceeds its fair value.

Intangible assets that are deemed to have a finite useful life are amortized over their useful lives. The carrying amount of intangible assets with a finite useful life is regularly reviewed for indicators of impairment in value. Impairment is recognized only if the carrying amount of the intangible asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the fair value of the asset.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of the reviews performed for the years ended December 31, 2016, 2015 and 2014, the Company determined that the estimated fair value substantially exceeded the respective carrying value of its reporting units for those years and that goodwill was not impaired. The Company also determined during its reviews for each year that its other indefinite-lived intangible assets and finite-lived intangible assets were not impaired.

Claims and Claim Adjustment Expense Reserves

Claims and claim adjustment expense reserves represent estimates for the ultimate cost of unpaid reported and unreported claims incurred and related expenses. The reserves are adjusted regularly based upon experience. Included in the claims and claim adjustment expense reserves in the consolidated balance sheet are reserves for long-term disability and annuity claim payments, primarily arising from workers' compensation insurance and workers' compensation excess insurance policies, that are discounted to the present value of estimated future payments.

The Company performs a continuing review of its claims and claim adjustment expense reserves, including its reserving techniques and the impact of reinsurance. The reserves are also reviewed regularly by qualified actuaries employed by the Company. Since the reserves are based on estimates, the ultimate liability may be more or less than such reserves. The effects of changes in such estimated reserves are included in the results of operations in the period in which the estimates are changed. Such changes in estimates could occur in a future period and may be material to the Company's results of operations and financial position in such period.

Other Liabilities

Included in other liabilities in the consolidated balance sheet is the Company's estimate of its liability for guaranty fund and other insurance-related assessments. The liability for expected state guaranty fund and other premium-based assessments is recognized as the Company writes or becomes obligated to write or renew the premiums on which the assessments are expected to be based. The liability for loss-based assessments is recognized as the related losses are incurred. At December 31, 2016 and 2015, the Company had a liability of \$242 million and \$241 million, respectively, for guaranty fund and other insurance-related assessments and related recoverables of \$16 million and \$18 million, respectively. The liability for such assessments and the related recoverables are not discounted for the time value of money. The loss-based assessments are expected to be paid over a period ranging from one year to the life expectancy of certain workers' compensation claimants and the recoveries are expected to occur over the same period of time.

Also included in other liabilities is an accrual for policyholder dividends. Certain insurance contracts, primarily workers' compensation, are participating whereby dividends are paid to policyholders in accordance with contract provisions. Net written premiums for participating dividend policies were approximately 1%, 2% and 1% of total net written premiums for the years ended December 31, 2016, 2015 and 2014, respectively. Policyholder dividends are accrued against earnings using best available estimates of amounts to be paid. The liability accrued for policyholder dividends totaled \$62 million and \$57 million at December 31, 2016 and 2015, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasury Stock

The cost of common stock repurchased by the Company is reported as treasury stock and represents authorized and unissued shares of the Company under the Minnesota Business Corporation Act.

Statutory Accounting Practices

The Company's U.S. insurance subsidiaries, domiciled principally in the State of Connecticut, are required to prepare statutory financial statements in accordance with the accounting practices prescribed or permitted by the insurance departments of the states of domicile. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. The State of Connecticut requires insurers domiciled in Connecticut to prepare their statutory financial statements in accordance with National Association of Insurance Commissioners' (NAIC) statutory accounting practices.

Permitted statutory accounting practices are those practices that differ either from state-prescribed statutory accounting practices or NAIC statutory accounting practices.

The Company does not apply any statutory accounting practices that would be considered a prescribed or permitted statutory accounting practice that differs from NAIC statutory accounting practices.

The Company's non-U.S. insurance subsidiaries file financial statements prepared in accordance with the regulatory reporting requirements of their respective local jurisdiction.

Premiums and Unearned Premium Reserves

Premiums are recognized as revenues pro rata over the policy period. Unearned premium reserves represent the unexpired portion of policy premiums. Accrued retrospective premiums are included in premium balances receivable. Premium balances receivable are reported net of an allowance for estimated uncollectible premium amounts.

Ceded premiums are charged to income over the applicable term of the various reinsurance contracts with third party reinsurers. Prepaid reinsurance premiums represent the unexpired portion of premiums ceded to reinsurers and are reported as part of other assets.

Fee Income

Fee income includes servicing fees from carriers and revenues from large deductible policies and service contracts and is recognized pro rata over the contract or policy periods.

Other Revenues

Other revenues include revenues from premium installment charges, which are recognized as collected, revenues of noninsurance subsidiaries other than fee income and gains and losses on dispositions of assets and redemption of debt, and other miscellaneous revenues including a gain recognized as a result of the settlement of a reinsurance dispute.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

Foreign Currency Translation

The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency, and the resulting foreign exchange gains or losses are reflected in earnings. Functional currency amounts are then translated into U.S. dollars. The foreign currency remeasurement and translation are calculated using current exchange rates for items reported in the balance sheets and average exchange rates for items recorded in earnings. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of other comprehensive income.

Share-Based Compensation

The Company has an employee stock incentive compensation plan that permits grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, deferred stock, stock units, performance awards and other share-based or share-denominated awards with respect to the Company's common stock.

Compensation cost is measured based on the grant-date fair value of an award, utilizing the assumptions discussed in note 13. Compensation cost is recognized for financial reporting purposes over the period in which the employee is required to provide service in exchange for the award (generally the vesting period). In connection with certain share-based awards, participants are entitled to receive dividends during the vesting period, either in cash or dividend equivalent shares, commensurate with the dividends paid to common shareholders. Dividends and dividend equivalent shares on awards that are expected to vest are recorded in retained earnings. Dividends paid on awards that are not expected to vest as part of the Company's forfeiture estimate are recorded as compensation expense.

Nature of Operations

The Company is organized into three reportable business segments: Business and International Insurance; Bond & Specialty Insurance; and Personal Insurance. These segments reflect the manner in which the Company's businesses are currently managed and represent the aggregation of products and services based on the type of customer, how the business is marketed and the manner in which risks are underwritten. The specific business segments are as follows:

Business and International Insurance

Business and International Insurance offers a broad array of property and casualty insurance and insurance related services to its clients, primarily in the United States and in Canada, as well as in the

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

United Kingdom, the Republic of Ireland, Brazil and throughout other parts of the world as a corporate member of Lloyd's. Business and International Insurance is organized as follows:

Domestic

Select Accounts provides small businesses with property and casualty products, including commercial multi-peril, commercial property, general liability, commercial auto and workers' compensation insurance.

Middle Market provides mid-sized businesses with property and casualty products, including commercial multi-peril, commercial property, general liability, commercial auto and workers' compensation insurance, as well as risk management, claims handling and other services. Middle Market generally provides these products to mid-sized businesses through *Commercial Accounts*, as well as to targeted industries through *Construction*, *Technology*, *Public Sector Services* and *Oil & Gas*. Middle Market also provides mono-line umbrella and excess coverage insurance through *Excess Casualty*.

National Accounts provides large companies with casualty products and services, including workers' compensation, general liability and automobile liability, generally utilizing loss-sensitive products, on both a bundled and unbundled basis. National Accounts also includes the Company's commercial residual market business, which primarily offers workers' compensation products and services to the involuntary market.

First Party provides traditional and customized property insurance programs to large and mid-sized customers through *National Property*, insurance for goods in transit and movable objects, as well as builders' risk insurance, through *Inland Marine*, insurance for the marine transportation industry and related services, as well as other businesses involved in international trade, through *Ocean Marine*, and comprehensive breakdown coverages for equipment, including property and business interruption coverages, through *Boiler & Machinery*.

Specialized Distribution provides insurance coverage for the commercial transportation industry, as well as commercial liability and commercial property policies for small, difficult to place specialty classes of commercial business primarily on an excess and surplus lines basis, through *Northland*, and tailored property and casualty programs on an admitted basis for customers with common risk characteristics or coverage requirements through *National Programs*. Specialized Distribution also serves small to medium-sized agricultural businesses, including farms, ranches, wineries and related operations, through *Agribusiness*.

International

International, through its operations in Canada, the United Kingdom and the Republic of Ireland, offers property and casualty insurance and risk management services to several customer groups, including, among others, those in the technology, public services, and financial and professional services industry sectors. In addition, International markets personal lines and small commercial insurance business in Canada. International also provides insurance coverages for foreign organizations with exposures in the United States through *Global Partner Services*. International, through its Lloyd's syndicate (Syndicate 5000), for which the Company provides

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

100% of the capital, underwrites five principal businesses marine, global property, accident & special risks, power & utilities and aviation.

International also includes results from J. Malucelli Participações em Seguros e Resseguros S.A. (JMalucelli) and J. Malucelli Latam S.A. in Brazil. The Company owns 49.5% of both JMalucelli, a market leader in surety coverages in Brazil, and J. Malucelli Latam S.A., which in September 2015 acquired a majority interest in JMalucelli Travelers Seguros S.A., a Colombian start-up surety provider. These joint venture investments are accounted for using the equity method and are included in "other investments" on the consolidated balance sheet. Also, as a result of a transaction that was completed in October 2015 with Paraná Banco S.A., the Company's joint venture partner in Brazil, the Company acquired 100% of the common stock of Travelers Participações em Seguros Brasil S.A., which comprises JMalucelli's former property and casualty insurance business other than surety. The Company consolidates this investment in its financial statements and includes Paraná Banco S.A.'s preferred stock interest in "other liabilities."

Business and International Insurance also includes the Special Liability Group (which manages the Company's asbestos and environmental liabilities) and the assumed reinsurance and certain other runoff operations, which are collectively referred to as Business and International Insurance Other.

Bond & Specialty Insurance

Bond & Specialty Insurance provides surety, fidelity, management liability, professional liability, and other property and casualty coverages and related risk management services to a wide range of primarily domestic customers, utilizing various degrees of financially-based underwriting approaches. The range of coverages includes performance, payment and commercial surety and fidelity bonds for construction and general commercial enterprises; management liability coverages including directors and officers liability, employee dishonesty, employment practices liability, fiduciary liability and cyber risk for public corporations, private companies and not-for-profit organizations; professional liability coverage for a variety of professionals including, among others, lawyers and design professionals; and management liability, professional liability, property, workers' compensation, auto and general liability for financial institutions.

Personal Insurance

Personal Insurance writes a broad range of property and casualty insurance covering individuals' personal risks. The primary products of automobile and homeowners insurance are complemented by a broad suite of related coverages.

Automobile policies provide coverage for liability to others for both bodily injury and property damage, uninsured motorist protection, and for physical damage to an insured's own vehicle from collision, fire, flood, hail and theft. In addition, many states require policies to provide first-party personal injury protection, frequently referred to as no-fault coverage.

Homeowners policies provide protection against losses to dwellings and contents from a variety of perils (excluding flooding) as well as coverage for personal liability. The Company writes homeowners insurance for dwellings, condominiums and tenants, and rental properties. The Company also writes

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

coverage for boats and yachts and valuable personal items such as jewelry, and also writes coverages for umbrella liability, identity fraud, and weddings and special events.

2. SEGMENT INFORMATION

The accounting policies used to prepare the segment reporting data for the Company's three reportable business segments are the same as those described in the Summary of Significant Accounting Policies in note 1.

Except as described below for certain legal entities, the Company allocates its invested assets and the related net investment income to its reportable business segments. Pre-tax net investment income is allocated based upon an investable funds concept, which takes into account liabilities (net of non-invested assets) and appropriate capital considerations for each segment. For investable funds, a benchmark investment yield is developed that reflects the estimated duration of the loss reserves' future cash flows, the interest rate environment at the time the losses were incurred and A+ rated corporate debt instrument yields. For capital, a benchmark investment yield is developed that reflects the average yield on the total investment portfolio. The benchmark investment yields are applied to each segment's investable funds and capital, respectively, to produce a total notional investment income by segment. The Company's actual net investment income is allocated to each segment in proportion to the respective segment's notional investment income to total notional investment income. There are certain legal entities within the Company that are dedicated to specific reportable business segments. The invested assets and related net investment income from these legal entities are reported in the applicable business segment and are not allocated among the other business segments.

The cost of the Company's catastrophe treaty program is included in the Company's ceded premiums and is allocated among reportable business segments based on an estimate of actual market reinsurance pricing using expected losses calculated by the Company's catastrophe model, adjusted for any experience adjustments.

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

The following tables summarize the components of the Company's operating revenues, operating income, net written premiums and total assets by reportable business segments.

(for the year ended December 31, in millions)	Business and International Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2016				
Premiums	\$ 14,620	\$ 2,088	\$ 7,826	\$ 24,534
Net investment income	1,763	210	329	2,302
Fee income	442		16	458
Other revenues	176	20	56	252
Total operating revenues(1)	\$ 17,001	\$ 2,318	\$ 8,227	\$ 27,546
Amortization and depreciation	\$ 2,956	\$ 457	\$ 1,391	\$ 4,804
Income tax expense	659	307	191	1,157
Operating income(1)	2,048	653	510	3,211
2015				
Premiums	\$ 14,521	\$ 2,085	\$ 7,268	\$ 23,874
Net investment income	1,824	223	332	2,379
Fee income	445		15	460
Other revenues	23	22	48	93
Total operating revenues(1)	\$ 16,813	\$ 2,330	\$ 7,663	\$ 26,806
Amortization and depreciation	\$ 2,907	\$ 467	\$ 1,322	\$ 4,696
Income tax expense	769	272	402	1,443
Operating income(1)	2,170	633	889	3,692
2014				
Premiums	\$ 14,512	\$ 2,076	\$ 7,125	\$ 23,713
Net investment income	2,156	252	379	2,787
Fee income	438		12	450
Other revenues	46	19	80	145
Total operating revenues(1)	\$ 17,152	\$ 2,347	\$ 7,596	\$ 27,095
Amortization and depreciation	\$ 2,909	\$ 482	\$ 1,347	\$ 4,738
Income tax expense	798	348	366	1,512
Operating income(1)	2,347	727	824	3,898

(1)

Operating revenues for reportable business segments exclude net realized investment gains. Operating income for reportable business segments equals net income excluding the after-tax impact of net realized investment gains.

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

Net written premiums by market were as follows:

(for the year ended December 31, in millions)	2016	2015	2014
Business and International Insurance:			
Domestic:			
Select Accounts	\$ 2,729	\$ 2,716	\$ 2,707
Middle Market	6,463	6,302	6,077
National Accounts	1,058	1,048	1,047
First Party	1,601	1,564	1,579
Specialized Distribution	1,094	1,111	1,074
Total Domestic	12,945	12,741	12,484
International	1,730	1,842	2,152
Total Business and International Insurance	14,675	14,583	14,636
Bond & Specialty Insurance	2,099	2,081	2,103
Personal Insurance:			
Automobile	4,327	3,700	3,390
Homeowners and Other	3,857	3,757	3,775
Total Personal Insurance	8,184	7,457	7,165
Total consolidated net written premiums	\$ 24,958	\$ 24,121	\$ 23,904

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

Business Segment Reconciliations

(for the year ended December 31, in millions)	2016	2015	2014
Revenue reconciliation			
Earned premiums			
Business and International Insurance:			
Domestic:			
Workers' compensation	\$ 3,969	\$ 3,867	\$ 3,711
Commercial automobile	2,010	1,922	1,900
Commercial property	1,769	1,766	1,747
General liability	1,977	1,898	1,834
Commercial multi-peril	3,148	3,133	3,071
Other	31	39	42
Total Domestic	12,904	12,625	12,305
International	1,716	1,896	2,207
Total Business and International Insurance	14,620	14,521	14,512
Bond & Specialty Insurance:			
Fidelity and surety	962	954	936
General liability	946	955	963
Other	180	176	177
Total Bond & Specialty Insurance	2,088	2,085	2,076
Personal Insurance:			
Automobile	4,013	3,512	3,316
Homeowners and Other	3,813	3,756	3,809
Total Personal Insurance	7,826	7,268	7,125
Total earned premiums	24,534	23,874	23,713
Net investment income	2,302	2,379	2,787
Fee income	458	460	450
Other revenues	252	93	145
Total operating revenues for reportable segments	27,546	26,806	27,095
Other revenues	11	6	
Net realized investment gains	68	3	79
Total consolidated revenues	\$ 27,625	\$ 26,815	\$ 27,174

Income reconciliation, net of tax

Total operating income for reportable segments	\$ 3,211	\$ 3,692	\$ 3,898
Interest Expense and Other(1)	(244)	(255)	(257)

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Total operating income	2,967	3,437	3,641
Net realized investment gains	47	2	51
Total consolidated net income	\$ 3,014	\$ 3,439	\$ 3,692

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- (1) The primary component of Interest Expense and Other was after-tax interest expense of \$236 million, \$242 million and \$240 million in 2016, 2015 and 2014, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

(at December 31, in millions)	2016	2015
Asset reconciliation:		
Business and International Insurance	\$ 79,468	\$ 79,692
Bond & Specialty Insurance	7,296	7,360
Personal Insurance	13,118	12,748
 Total assets for reportable segments	 99,882	 99,800
Other assets(1)	363	384
 Total consolidated assets	 \$ 100,245	 \$ 100,184

(1) The primary components of other assets at December 31, 2016 and 2015 were other intangible assets and deferred taxes.

Enterprise-Wide Disclosures

The Company does not have revenue from transactions with a single customer amounting to 10 percent or more of its revenues.

The following table presents revenues of the Company's operations based on location:

(for the year ended December 31, in millions)	2016	2015	2014
U.S.	\$ 25,904	\$ 25,127	\$ 25,103
Non-U.S.:			
Canada	1,154	1,202	1,474
Other Non-U.S.	567	486	597
 Total Non-U.S.	 1,721	 1,688	 2,071
 Total revenues	 \$ 27,625	 \$ 26,815	 \$ 27,174

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. INVESTMENTS****Fixed Maturities**

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

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

(at December 31, 2015, in millions)	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,202	\$ 8	\$ 16	\$ 2,194
Obligations of states, municipalities and political subdivisions:				
Local general obligation	12,744	577	3	13,318
Revenue	9,492	472	4	9,960
State general obligation	1,978	97	2	2,073
Pre-refunded	5,813	247		6,060
Total obligations of states, municipalities and political subdivisions	30,027	1,393	9	31,411
Debt securities issued by foreign governments	1,829	45	1	1,873
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,863	124	6	1,981
All other corporate bonds	22,854	523	288	23,089
Redeemable preferred stock	103	7		110
Total	\$ 58,878	\$ 2,100	\$ 320	\$ 60,658

The amortized cost and fair value of fixed maturities by contractual maturity follow. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

(at December 31, 2016, in millions)	Amortized Cost	Fair Value
Due in one year or less	\$ 5,619	\$ 5,677
Due after 1 year through 5 years	16,417	16,926
Due after 5 years through 10 years	14,258	14,449
Due after 10 years	21,742	21,755
	58,036	58,807
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,614	1,708
Total	\$ 59,650	\$ 60,515

Pre-refunded bonds of \$5.16 billion and \$6.06 billion at December 31, 2016 and 2015, respectively, were bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities, which were created to satisfy their responsibility for payments of principal and interest.

The Company's fixed maturity investment portfolio at December 31, 2016 and 2015 included \$1.71 billion and \$1.98 billion, respectively, of residential mortgage-backed securities, which include pass-through securities and collateralized mortgage obligations (CMOs). Included in the totals at December 31, 2016 and 2015 were \$563 million and \$676 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 \$1.15 billion and \$1.30 billion at December 31, 2016 and 2015, respectively. Approximately 51% and 48% of the Company's CMO holdings at December 31, 2016 and 2015, respectively, were guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC. The average credit rating of the \$566 million and \$683 million of non-guaranteed CMO holdings at December 31, 2016 and 2015, respectively, was "Baa2" at both dates. The average credit rating of all of the above securities was "Aa2" and "Aa3" at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, the Company held commercial mortgage-backed securities (CMBS, including FHA project loans) of \$938 million and \$865 million, respectively, which are included in "All other corporate bonds" in the tables above. At December 31, 2016 and 2015, approximately \$290 million and \$303 million of these securities, respectively, or the loans backing such securities, contained guarantees by the U.S. government or a government-sponsored enterprise. The average credit rating of the \$648 million and \$562 million of non-guaranteed securities at December 31, 2016 and 2015, respectively, was "Aaa" at both dates. The CMBS portfolio is supported by loans that are diversified across economic sectors and geographical areas. The average credit rating of the CMBS portfolio was "Aaa" at both December 31, 2016 and 2015.

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

At December 31, 2016 and 2015, the Company had \$286 million and \$269 million, respectively, of securities on loan as part of a tri-party lending agreement.

Proceeds from sales of fixed maturities classified as available for sale were \$1.42 billion, \$1.95 billion and \$1.05 billion in 2016, 2015 and 2014, respectively. Gross gains of \$79 million, \$95 million and \$44 million and gross losses of \$20 million, \$14 million and \$12 million were realized on those sales in 2016, 2015 and 2014, respectively.

At December 31, 2016 and 2015, the Company's insurance subsidiaries had \$4.56 billion and \$4.68 billion, respectively, of securities on deposit at financial institutions in certain states pursuant to the respective states' insurance regulatory requirements. Funds deposited with third parties to be used as collateral to secure various liabilities on behalf of insureds, cedants and other creditors had a fair value of \$35 million and \$28 million at December 31, 2016 and 2015, respectively. Other investments pledged as collateral securing outstanding letters of credit had a fair value of \$3 million and \$21 million at December 31, 2016 and 2015, respectively. In addition, the Company utilized a Lloyd's trust deposit at December 31, 2016 and 2015, whereby owned securities with a fair value of approximately \$97 million and \$140 million, respectively, held by an insurance subsidiary were pledged into a Lloyd's trust account to support capital requirements for the Company's operations at Lloyd's.

Equity Securities

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

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

(at December 31, 2015, in millions)	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Public common stock	\$ 386	\$ 164	\$ 7	\$ 543
Non-redeemable preferred stock	142	26	6	162
Total	\$ 528	\$ 190	\$ 13	\$ 705

Proceeds from sales of equity securities classified as available for sale were \$92 million, \$59 million and \$158 million in 2016, 2015 and 2014, respectively. Gross gains of \$17 million, \$16 million and \$27 million and gross losses of \$3 million, \$10 million and \$3 million were realized on those sales in 2016, 2015 and 2014, respectively.

Real Estate

The Company's real estate investments include warehouses, office buildings and other commercial land and properties that are directly owned. The Company negotiates commercial leases with individual

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

tenants through unrelated, licensed real estate brokers. Negotiated terms and conditions include, among others, rental rates, length of lease period and improvements to the premises to be provided by the landlord.

Proceeds from the sale of real estate investments were \$69 million, \$31 million and \$15 million in 2016, 2015 and 2014, respectively. Gross gains of \$7 million, \$4 million and \$6 million were realized on those sales in 2016, 2015 and 2014, respectively, and there were no gross losses. Accumulated depreciation on real estate held for investment purposes was \$332 million and \$320 million at December 31, 2016 and 2015, respectively.

Future minimum rental income on operating leases relating to the Company's real estate properties is expected to be \$84 million, \$74 million, \$62 million, \$46 million and \$34 million for 2017, 2018, 2019, 2020 and 2021, respectively, and \$45 million for 2022 and thereafter.

Short-term Securities

The Company's short-term securities consist of Aaa-rated registered money market funds, U.S. Treasury securities, high-quality commercial paper (primarily A1/P1) and high-quality corporate securities purchased within a year to their maturity with a combined average of 80 days to maturity at December 31, 2016. The amortized cost of these securities, which totaled \$4.87 billion and \$4.67 billion at December 31, 2016 and 2015, respectively, approximated their fair value.

Variable Interest Entities

Entities which do not have sufficient equity at risk to allow the entity to finance its activities without additional financial support or in which the equity investors, as a group, do not have the characteristic of a controlling financial interest are referred to as variable interest entities (VIE). A VIE is consolidated by the variable interest holder that is determined to have the controlling financial interest (primary beneficiary) as a result of having both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose and the Company's relative exposure to the related risks of the VIE on the date it becomes initially involved in the VIE. The Company reassesses its VIE determination with respect to an entity on an ongoing basis.

The Company is a passive investor in limited partner equity interests issued by third party VIEs. These include certain of the Company's investments in private equity limited partnerships, hedge funds and real estate partnerships where the Company is not related to the general partner. These investments are generally accounted for under the equity method and reported in the Company's consolidated balance sheet as other investments unless the Company is deemed the primary beneficiary. These equity interests generally cannot be redeemed. Distributions from these investments are received by the Company as a result of liquidation of the underlying investments of the funds and/or as income distribution. The Company's maximum exposure to loss with respect to these investments is limited to the investment carrying amounts reported in the Company's consolidated balance sheet and any unfunded commitment. Neither the carrying amounts nor the unfunded commitments related to these VIEs are material.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at December 31, 2016 and 2015, 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. The Company also relies upon estimates of several factors in its review and evaluation of individual investments, using the process described in note 1, in determining 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
(at December 31, 2016, in millions)						
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 1,124	\$ 5	\$	\$	\$ 1,124	\$ 5
Obligations of states, municipalities and political subdivisions	9,781	352	12		9,793	352
Debt securities issued by foreign governments	360	3			360	3
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	528	5	43	1	571	6
All other corporate bonds	6,470	115	437	23	6,907	138
Redeemable preferred stock						
Total fixed maturities	18,263	480	492	24	18,755	504
Equity securities						
Public common stock	45	2	10	1	55	3
Non-redeemable preferred stock	2		59	5	61	5
Total equity securities	47	2	69	6	116	8
Total	\$ 18,310	\$ 482	\$ 561	\$ 30	\$ 18,871	\$ 512

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

(at December 31, 2015, in millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 1,820	\$ 15	\$ 28	\$ 1	\$ 1,848	\$ 16
Obligations of states, municipalities and political subdivisions	928	7	142	2	1,070	9
Debt securities issued by foreign governments	172	1			172	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	473	4	57	2	530	6
All other corporate bonds	7,725	197	710	91	8,435	288
Redeemable preferred stock	8				8	
Total fixed maturities	11,126	224	937	96	12,063	320
Equity securities						
Public common stock	48	6	33	1	81	7
Non-redeemable preferred stock	47	3	38	3	85	6
Total equity securities	95	9	71	4	166	13
Total	\$ 11,221	\$ 233	\$ 1,008	\$ 100	\$ 12,229	\$ 333

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at December 31, 2016, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

(in millions)	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
	3 Months or Less	Greater Than 3 Months, 6 Months or Less	Greater Than 6 Months, 12 Months or Less	Greater Than 12 Months	Total
Fixed maturities					
Mortgage-backed securities	\$	\$	\$	\$	\$
Other	1			2	3
Total fixed maturities	1			2	3
Equity securities	1				1
Total	\$ 2	\$	\$	\$ 2	\$ 4

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These unrealized losses at December 31, 2016 represented less than 1% of the combined fixed maturity and equity security portfolios on a pre-tax basis and less than 1% of shareholders' equity on an after-tax basis.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Impairment Charges

Impairment charges included in net realized investment gains in the consolidated statement of income were as follows:

(for the year ended December 31, in millions)	2016	2015	2014
Fixed maturities			
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$	\$	\$
Obligations of states, municipalities and political subdivisions			
Debt securities issued by foreign governments			
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities			1
All other corporate bonds	15	13	15
Redeemable preferred stock			
Total fixed maturities	15	13	16
Equity securities			
Public common stock	9	37	9
Non-redeemable preferred stock	3		
Total equity securities	12	37	9
Other investments	2	2	1
Total	\$ 29	\$ 52	\$ 26

The following tables present the cumulative amount of and the changes during the year in credit losses on fixed maturities held at December 31, 2016 and 2015, 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.

Year ended December 31, 2016 (in millions)	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows					
	Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Period	Additions for OTTI Securities Where No Credit Losses Were Previously Recognized	Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized	Reductions Due to Sales/Defaults of Credit-Impaired Securities	to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	\$ 32	\$	\$	\$	(1)	\$ 31
All other corporate bonds	51	13		(7)	(3)	54
Total fixed maturities	\$ 83	\$ 13	\$	(7)	(4)	\$ 85

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Year ended December 31, 2015 (in millions)	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows					
	Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Period	Additions for OTTI Securities Where No Credit Losses Were Previously Recognized	Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized	Reductions Due to Sales/Defaults of Credit-Impaired Securities	to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	\$ 40	\$	\$	(6)	(2)	\$ 32
All other corporate bonds	59	2		(4)	(6)	51
Total fixed maturities	\$ 99	\$ 2	\$	(10)	(8)	\$ 83

Concentrations and Credit Quality

Concentrations of credit risk arise from exposure to counterparties that are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company seeks to mitigate credit risk by actively monitoring the creditworthiness of counterparties, obtaining collateral as deemed appropriate and applying controls that include credit approvals, limits of credit exposure and other monitoring procedures.

At December 31, 2016, other than U.S. Treasury securities and obligations of U.S. government and government agencies and authorities, the Company was not exposed to any concentration of credit risk of a single issuer greater than 5% of the Company's shareholders' equity. At December 31, 2015, other than U.S. Treasury securities, obligations of U.S. government and government agencies and authorities, and obligations of the Canadian government, the Company was not exposed to any concentration of credit risk of a single issuer greater than 5% of the Company's shareholders' equity.

Included in fixed maturities are below investment grade securities totaling \$1.76 billion and \$1.71 billion at December 31, 2016 and 2015, respectively. The Company defines its below investment grade securities as those securities rated below investment grade by external rating agencies, or the equivalent by the Company when a public rating does not exist. Such securities include below investment grade bonds that are publicly traded and certain other privately issued bonds that are classified as below investment grade loans.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Net Investment Income

(for the year ended December 31, in millions)	2016	2015	2014
Gross investment income			
Fixed maturities	\$ 1,981	\$ 2,091	\$ 2,244
Equity securities	37	39	40
Short-term securities	29	12	9
Real estate investments	51	48	44
Other investments	242	230	489
 Gross investment income	 2,340	 2,420	 2,826
Investment expenses	38	41	39
 Net investment income	 \$ 2,302	 \$ 2,379	 \$ 2,787

Changes in net unrealized gains on investment securities that are included as a separate component of other comprehensive income (loss) were as follows:

(at and for the year ended December 31, in millions)	2016	2015	2014
Changes in net unrealized investment gains			
Fixed maturities	\$ (915)	\$ (893)	\$ 913
Equity securities	51	(143)	63
Other investments	2	2	2
 Change in net pre-tax unrealized gains on investment securities	 (862)	 (1,034)	 978
Related tax expense (benefit)	(303)	(357)	334
 Change in net unrealized gains on investment securities	 (559)	 (677)	 644
Balance, beginning of year	1,289	1,966	1,322
 Balance, end of year	 \$ 730	 \$ 1,289	 \$ 1,966

Derivative Financial Instruments

From time to time, the Company enters into U.S. Treasury note futures contracts to modify the effective duration of specific assets within the investment portfolio. U.S. Treasury futures contracts require a daily mark-to-market and settlement with the broker. At both December 31, 2016 and 2015, the Company had \$400 million notional value of open U.S. Treasury futures contracts. Net realized investment losses related to U.S. Treasury futures contracts in 2016, 2015 and 2014 were not significant.

The Company also sells a small amount of U.S. equity index put option contracts that are settled for cash upon their expiration or when they are rolled over. Net realized investment losses related to these derivatives in 2016, 2015 and 2014 were not significant.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS

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

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

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

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

Valuation of Investments Reported at Fair Value in Financial Statements

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated, willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Company uses the unadjusted quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from third party, nationally recognized pricing services. When quoted market prices are unavailable, the Company utilizes these pricing services to determine an estimate of fair value. The fair value estimates provided from these pricing services are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third-party market participant would be willing to pay in an arm's length transaction.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Fixed Maturities

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both December 31, 2016 and 2015. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

The pricing service evaluates each asset class based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

The pricing service utilized by the Company has indicated that it will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If the pricing service discontinues pricing an investment, the Company would be required to produce an estimate of fair value using some of the same methodologies as the pricing service but would have to make assumptions for any market-based inputs that were unavailable due to market conditions. The Company reviews the estimates of fair value provided by the pricing service and compares the estimates to the Company's knowledge of the market to determine if the estimates obtained are representative of the prices in the market. In addition, the Company has periodic discussions with the pricing service to discuss and understand any changes in process and their responsiveness to changes occurring in the markets. The Company also monitors all monthly price changes and further evaluates any securities whose value changed more than 10% from the prior month. The Company has implemented various other processes including randomly selecting purchased or sold securities and comparing execution prices to the estimates from the pricing service as well as reviewing securities whose valuation did not change from their previous valuation (stale price review). The Company also uses a second independent pricing service to further test the primary pricing service's valuation of the Company's fixed maturity portfolio. These processes have not highlighted any significant issues with the fair value estimates received from the primary pricing service.

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value of U.S. Treasury securities is included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

The Company also holds certain fixed maturity investments which are not priced by the pricing service and, accordingly, estimates the fair value of such fixed maturities using an internal matrix that is based on market information regarding interest rates, credit spreads and liquidity. The underlying source data for calculating the matrix of credit spreads relative to the U.S. Treasury curve are the BofA

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Merrill Lynch U.S. Corporate Index and the BofA Merrill Lynch High Yield BB Rated Index. The Company includes the fair value estimates of these corporate bonds in Level 2, since all significant inputs are market observable.

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 \$99 million and \$101 million at December 31, 2016 and 2015, 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 \$85 million and \$117 million at December 31, 2016 and 2015, 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.

Equity Securities Public Common Stock and Non-Redeemable Preferred Stock

For public common stock and non-redeemable preferred stocks, the Company receives prices from pricing services that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. When current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company, the Company receives an estimate of fair value from the pricing services. The services utilize similar methodologies to price the non-redeemable preferred stocks as they do for the fixed maturities. The Company includes the fair value estimate for these non-redeemable preferred stocks in the amount disclosed in Level 2.

Other Investments

The Company holds investments in various publicly-traded securities which are reported in other investments. These investments include mutual funds and other small holdings. The \$17 million and \$18 million fair value of these investments at December 31, 2016 and 2015, respectively, was disclosed in Level 1. At December 31, 2016 and 2015, the Company held investments in non-public common and preferred equity securities, with fair value estimates of \$36 million and \$38 million, respectively, reported in other investments, where the fair value estimate is determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the total fair value estimate for all of these investments at December 31, 2016 and 2015 in the amount disclosed in Level 3.

Derivatives

At December 31, 2015, the Company held \$2 million of convertible bonds containing embedded conversion options that are valued separately from the host bond contract in the amount disclosed in Level 2 fixed maturities. At December 31, 2016, the Company held no such convertible bonds.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

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.

(at December 31, 2016, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	\$ 2,035	\$ 2,035	\$	\$
Obligations of states, municipalities and political subdivisions	31,910		31,898	12
Debt securities issued by foreign governments	1,662		1,662	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,708		1,704	4
All other corporate bonds	23,107		22,939	168
Redeemable preferred stock	93	3	90	
Total fixed maturities	60,515	2,038	58,293	184
Equity securities				
Public common stock	603	603		
Non-redeemable preferred stock	129	51	78	
Total equity securities	732	654	78	
Other investments	53	17		36
Total	\$ 61,300	\$ 2,709	\$ 58,371	\$ 220

(at December 31, 2015, 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	\$ 2,194	\$ 2,194	\$	\$
Obligations of states, municipalities and political subdivisions	31,411		31,398	13
Debt securities issued by foreign governments	1,873		1,873	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,981		1,957	24
All other corporate bonds	23,089		22,915	174
Redeemable preferred stock	110	3	100	7
Total fixed maturities	60,658	2,197	58,243	218
Equity securities				
Public common stock	543	543		
Non-redeemable preferred stock	162	55	107	

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Total equity securities	705	598	107	
Other investments	56	18		38
Total	\$ 61,419	\$ 2,813	\$ 58,350	\$ 256

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

During the years ended December 31, 2016 and 2015, the Company's transfers between Level 1 and Level 2 were not significant.

The following tables present the changes in the Level 3 fair value category for the years ended December 31, 2016 and 2015.

(in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2015	\$ 218	\$ 38	\$ 256
Total realized and unrealized investment gains (losses):			
Reported in net realized investment gains(1)	3	5	8
Reported in increases in other comprehensive income	2	3	5
Purchases, sales and settlements/maturities:			
Purchases	123		123
Sales	(19)	(10)	(29)
Settlements/maturities	(66)		(66)
Gross transfers into Level 3	19		19
Gross transfers out of Level 3	(96)		(96)
Balance at December 31, 2016	\$ 184	\$ 36	\$ 220

Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	\$	\$	(2)	\$	(2)
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(1) Includes impairments on investments held at the end of the period as well as amortization on fixed maturities.

(in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2014	\$ 232	\$ 36	\$ 268
Total realized and unrealized investment gains (losses):			
Reported in net realized investment gains(1)	1	2	3
Reported in increases (decreases) in other comprehensive income	(4)	1	(3)
Purchases, sales and settlements/maturities:			
Purchases	202	1	203
Sales	(7)	(2)	(9)
Settlements/maturities	(41)		(41)
Gross transfers into Level 3	21		21
Gross transfers out of Level 3	(186)		(186)
Balance at December 31, 2015	\$ 218	\$ 38	\$ 256

	\$	\$	(1)	\$	(1)
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Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date

(1)

Includes impairments on investments held at the end of the period as well as amortization on fixed maturities.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

(at December 31, 2015, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	\$ 4,671	\$ 4,671	\$ 1,685	\$ 2,958	\$ 28
Financial liabilities:					
Debt	\$ 6,244	\$ 7,180		\$ 7,180	
Commercial paper	100	100		100	

The Company utilized a pricing service to estimate fair value for approximately 98% and 99% of short-term securities at December 31, 2016 and 2015, respectively. A description of the process and inputs used by the pricing service to estimate fair value is discussed in the "Fixed Maturities" section above. Estimates of fair value for U.S. Treasury securities and money market funds are based on market quotations received from the pricing service and are disclosed in Level 1 of the hierarchy. The fair value of other short-term fixed maturity securities is estimated by the pricing service using observable market inputs and is disclosed in Level 2 of the hierarchy. For short-term securities where an estimate is not obtained from the pricing service, the carrying value approximates fair value and is included in Level 3 of the hierarchy.

The Company utilized a pricing service to estimate fair value for 100% of its debt, including commercial paper, at December 31, 2016 and 2015. The pricing service utilizes market quotations for debt that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the fair value estimates are based on market observable inputs and disclosed in Level 2 of the hierarchy.

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the years ended December 31, 2016 and 2015.

5. REINSURANCE

The Company's consolidated financial statements reflect the effects of assumed and ceded reinsurance transactions. Assumed reinsurance refers to the acceptance of certain insurance risks that other insurance companies have underwritten. Ceded reinsurance involves transferring certain insurance risks (along with the related written and earned premiums) the Company has underwritten to other insurance companies who agree to share these risks. The primary purpose of ceded reinsurance is to

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE (Continued)

protect the Company, at a cost, from losses in excess of the amount it is prepared to accept and to protect the Company's capital. Reinsurance is placed on both a quota-share and excess-of-loss basis. Ceded reinsurance arrangements do not discharge the Company as the primary insurer, except for instances where the primary policy or policies have been novated, such as in certain structured settlement agreements.

The Company utilizes a corporate catastrophe excess-of-loss reinsurance treaty with unaffiliated reinsurers to manage its exposure to losses resulting from catastrophes and to protect its capital. In addition to the coverage provided under this treaty, the Company also utilizes catastrophe bonds to protect against certain weather-related and earthquake losses in the Northeastern United States, and a Northeast catastrophe reinsurance treaty to protect against losses resulting from weather-related and earthquake catastrophes in the Northeastern United States. The Company also utilizes excess-of-loss treaties to protect against earthquake losses up to a certain threshold in Business and International Insurance (for certain markets) and for Personal Insurance, and several reinsurance treaties specific to its international operations.

The Company monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to evaluate the collectability of amounts due from reinsurers and as a basis for determining the reinsurers with which the Company conducts ongoing business. In addition, in the ordinary course of business, the Company may become involved in coverage disputes with its reinsurers. Some of these disputes could result in lawsuits and arbitrations brought by or against the reinsurers to determine the Company's rights and obligations under the various reinsurance agreements. The Company employs dedicated specialists and strategies to manage reinsurance collections and disputes.

Included in reinsurance recoverables are amounts related to involuntary reinsurance arrangements. The Company is required to participate in various involuntary reinsurance arrangements through assumed reinsurance, principally with regard to residual market mechanisms in workers' compensation and automobile insurance, as well as homeowners' insurance in certain coastal areas. In addition, the Company provides services for several of these involuntary arrangements (mandatory pools and associations) under which it writes such residual market business directly, then cedes 100% of this business to the mandatory pool. Such participations and servicing arrangements are arranged to mitigate credit risk to the Company, as any ceded balances are jointly backed by all the pool members.

Also included in reinsurance recoverables are amounts related to certain structured settlements. Structured settlements are annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where the Company did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables and the related claim cost is included in the liability for claims and claim adjustment expense reserves, as the Company retains the contingent liability to the claimant. If it is expected that the life insurance company is not able to pay, the Company would recognize an impairment of the related reinsurance recoverable if, and to the extent, the purchased annuities are not covered by state guaranty associations. In the event that the life insurance company fails to make the required annuity payments, the Company would be required to make such payments.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE (Continued)

The following is a summary of reinsurance financial data reflected in the consolidated statement of income:

(for the year ended December 31, in millions)	2016	2015	2014
Written premiums			
Direct	\$ 25,567	\$ 24,939	\$ 24,844
Assumed	928	843	788
Ceded	(1,537)	(1,661)	(1,728)
Total net written premiums	\$ 24,958	\$ 24,121	\$ 23,904

Earned premiums			
Direct	\$ 25,262	\$ 24,740	\$ 24,810
Assumed	875	814	743
Ceded	(1,603)	(1,680)	(1,840)
Total net earned premiums	\$ 24,534	\$ 23,874	\$ 23,713

Percentage of assumed earned premiums to net earned premiums	3.6%	3.4%	3.1%
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Ceded claims and claim adjustment expenses incurred	\$ 762	\$ 1,034	\$ 953
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Ceded premiums include the premiums paid for coverage provided by the Company's catastrophe bonds.

Reinsurance recoverables include amounts recoverable on both paid and unpaid claims and claim adjustment expenses and were as follows:

(at December 31, in millions)	2016	2015
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	\$ 3,181	\$ 3,848
Allowance for uncollectible reinsurance	(116)	(157)
Net reinsurance recoverables	3,065	3,691
Mandatory pools and associations	2,054	2,015
Structured settlements	3,168	3,204
Total reinsurance recoverables	\$ 8,287	\$ 8,910

Terrorism Risk Insurance Program

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The Terrorism Risk Insurance Program is a Federal program administered by the Department of the Treasury authorized through December 31, 2020 that provides for a system of shared public and private compensation for certain insured losses resulting from certified acts of terrorism.

In order for a loss to be covered under the program (subject losses), the loss must meet certain aggregate industry loss minimums and must be the result of an event that is certified as an act of terrorism by the U.S. Secretary of the Treasury, in consultation with the Secretary of Homeland Security and the Attorney General of the United States. The annual aggregate industry loss minimum under the program is \$140 million for 2017, but will increase over the life of the program to

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\$200 million by December 31, 2020. The program excludes from participation the following types of insurance: Federal crop insurance, private mortgage insurance, financial guaranty insurance, medical malpractice insurance, health or life insurance, flood insurance, reinsurance, commercial automobile, professional liability (other than directors and officers'), surety, burglary and theft, and farm-owners multi-peril. In the case of a war declared by Congress, only workers' compensation losses are covered by the program. All commercial property and casualty insurers licensed in the United States are generally required to participate in the program. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 83% of subject losses in 2017, after an insurer deductible, subject to an annual cap. This reimbursement percentage will decrease over the remaining four-year life of the program to 80% of subject losses by December 31, 2020.

The deductible for any calendar year is equal to 20% of the insurer's direct earned premiums for covered lines for the preceding calendar year. The Company's estimated deductible under the program is \$2.45 billion for 2017. The annual cap limits the amount of aggregate subject losses for all participating insurers to \$100 billion. Once subject losses have reached the \$100 billion aggregate during a program year, participating insurers will not be liable under the program for additional covered terrorism losses for that program year. There have been no terrorism-related losses that have triggered program coverage since the program was established. Since the law is untested, there is substantial uncertainty as to how it will be applied if an act of terrorism is certified under the program. It is also possible that future legislative action could change or eliminate the program. Further, given the unpredictable frequency and severity of terrorism losses, as well as the limited terrorism coverage in the Company's own reinsurance program, future losses from acts of terrorism, particularly involving nuclear, biological, chemical or radiological events, could be material to the Company's operating results, financial position and/or liquidity in future periods. In addition, the Company may not have sufficient resources to respond to claims arising from a high frequency of high severity natural catastrophes and/or of man-made catastrophic events involving conventional means. While the Company seeks to manage its exposure to man-made catastrophic events involving conventional means, the Company may not have sufficient resources to respond to claims arising out of one or more man-made catastrophic events involving nuclear, biological, chemical or radiological means.

6. GOODWILL AND OTHER INTANGIBLE ASSETS**Goodwill**

The following table presents the carrying amount of the Company's goodwill by segment:

(at December 31, in millions)	2016	2015
Business and International Insurance(1)	\$ 2,446	\$ 2,439
Bond & Specialty Insurance	496	496
Personal Insurance	612	612
Other	26	26
Total	\$ 3,580	\$ 3,573

(1)

Includes goodwill associated with the Company's international business which is subject to the impact of changes in foreign currency exchange rates.

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

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

(at December 31, 2015, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Subject to amortization(1)	\$ 210	\$ 148	\$ 62
Not subject to amortization	217		217
Total	\$ 427	\$ 148	\$ 279