

Bar Code: P&C – Audited Financial Report
Document No: 220

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA



TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

Annual Audited Financial Statements – Statutory Basis

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

Annual Audited Financial Statements – Statutory Basis

<u>Index</u>	Page
Independent Auditors' Report	1-2
Financial Statements:	
Balance Sheet – December 31, 2017 and 2016	3
Statement of Income for the years ended December 31, 2017 and 2016	4
Statement of Changes in Capital and Surplus for the years ended December 31, 2017 and 2016	4
Statement of Cash Flow for the years ended December 31, 2017 and 2016	5
Notes to Financial Statements	6-23
Summary Investment Schedule	Exhibit 1
Supplemental Investment Risks Interrogatories	Exhibit 2
Property and Casualty Interrogatories Relating to Reinsurance	Exhibit 3



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Directors
The Travelers Companies, Inc. and subsidiaries:

We have audited the accompanying financial statements of Travelers Casualty and Surety Company of America, which comprise the balance sheet (statutory basis) as of December 31, 2017 and 2016, and the related statements of income (statutory basis), changes in capital and surplus (statutory basis), and cash flow (statutory basis) for the years then ended, and the related notes to the financial statements (statutory basis).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the State of Connecticut Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by Travelers Casualty and Surety Company of America using statutory accounting practices prescribed or permitted by the State of Connecticut Insurance Department, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.



The effects on the financial statements of the variances between the statutory accounting practices described in Note 2 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of Travelers Casualty and Surety Company of America as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Travelers Casualty and Surety Company of America as of December 31, 2017 and 2016, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the State of Connecticut Insurance Department described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the Summary Investment Schedule, Supplemental Investment Risks Interrogatories, and Property and Casualty Interrogatories Relating to Reinsurance is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the State of Connecticut Insurance Department. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

/s/KPMG LLP

Hartford, Connecticut
April 23, 2018

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
Balance Sheet (statutory basis)

(At December 31, in thousands)	<u>2017</u>	<u>2016</u>
Assets		
Bonds	\$ 3,372,829	\$ 3,472,067
Common stocks	326,031	321,319
Cash and short-term investments	137,626	23,924
Other invested assets	2,642	3,108
Receivables for securities	13	-
Securities lending reinvested collateral assets	20,556	6,918
Total cash and invested assets	<u>3,859,697</u>	<u>3,827,336</u>
Investment income due and accrued	39,231	42,070
Uncollected premiums and agents' balances in course of collection	80,530	79,821
Deferred premiums, agents' balances and installments booked but deferred and not yet due	155,177	137,360
Reinsurance - Amounts recoverable from reinsurers	23,906	23,138
Reinsurance - Funds held by or deposited with reinsured companies	-	1
Net deferred tax asset	46,322	69,572
Guaranty funds receivable or on deposit	4	2
Receivables from parent, subsidiaries and affiliates	21,488	9,662
Aggregate write-ins for other-than-invested assets	6,406	6,790
Total assets	<u><u>\$ 4,232,761</u></u>	<u><u>\$ 4,195,752</u></u>
Liabilities		
Losses	\$ 820,934	\$ 758,091
Reinsurance payable on paid losses and loss adjustment expenses	34	687
Loss adjustment expenses	181,114	224,272
Commissions payable, contingent commissions and other similar charges	42,188	39,770
Other expenses	42,889	42,558
Taxes, licenses and fees	13,243	13,875
Current federal and foreign income taxes	1,313	11,352
Unearned premiums	920,416	879,381
Advance premium	1,257	1,786
Dividends declared and unpaid - Policyholders	9,858	9,083
Ceded reinsurance premiums payable	36,704	26,819
Amounts withheld or retained by company for account of others	35,924	73,698
Remittances and items not allocated	82,546	9,443
Provision for reinsurance	5,066	3,555
Payable for securities	364	3,948
Payable for securities lending	20,556	6,918
Aggregate write-ins for liabilities	1,719	2,327
Total liabilities	<u>2,216,125</u>	<u>2,107,563</u>
Surplus as regards policyholders		
Aggregate write-ins for special surplus funds	7,509	7,156
Common capital stock	6,480	6,480
Gross paid in and contributed surplus	433,804	433,804
Unassigned funds (surplus)	1,568,843	1,640,749
Total surplus as regards policyholders	<u>2,016,636</u>	<u>2,088,189</u>
Total liabilities and surplus as regards policyholders	<u><u>\$ 4,232,761</u></u>	<u><u>\$ 4,195,752</u></u>

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
Statement of Income (statutory basis)

(For the year ended December 31, in thousands)	2017	2016
Underwriting Income		
Premiums earned	\$ 1,452,541	\$ 1,407,593
Losses incurred	404,433	291,801
Loss adjustment expenses incurred	9,827	(5,969)
Other underwriting expenses incurred	596,810	567,938
Net underwriting gain	441,471	553,823
Investment Income		
Net investment income earned	123,142	131,472
Net realized capital gains (losses) [net of tax of \$252 in 2017 and \$425 in 2016]	(2,374)	3,420
Net investment gain	120,768	134,892
Other Income		
Net gain (loss) from agents' or premium balances charged off	(777)	(380)
Finance and service charges not included in premiums	432	364
Aggregate write-ins for miscellaneous income (expense)	(850)	(1,198)
Total other income (expense)	(1,195)	(1,214)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	561,044	687,501
Dividends to policyholders	5,342	5,197
Federal and foreign income taxes incurred	168,761	220,452
Net income	\$ 386,941	\$ 461,852

Statement of Changes in Capital and Surplus (statutory basis)

(For the year ended December 31, in thousands)	2017	2016
Surplus as regards policyholders - December 31, prior year	\$ 2,088,189	\$ 2,103,596
Net income	386,941	461,852
Change in net unrealized capital gains	11,836	76,912
Change in net deferred income tax	(29,110)	2,535
Change in nonadmitted assets	291	(6,986)
Change in provision for reinsurance	(1,511)	280
Dividends to stockholder (cash)	(440,000)	(550,000)
Change in surplus as regards policyholders for the year	(71,553)	(15,407)
Surplus as regards policyholders - December 31, current year	\$ 2,016,636	\$ 2,088,189

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA
Statement of Cash Flow (statutory basis)

(For the year ended December 31, in thousands)

	<u>2017</u>	<u>2016</u>
Cash from Operations		
Premiums collected net of reinsurance	\$ 1,485,579	\$ 1,399,718
Net investment income	145,195	152,421
Miscellaneous income (expense)	(1,195)	(1,214)
Total	<u>1,629,579</u>	<u>1,550,925</u>
Benefit and loss related payments	343,011	269,780
Commissions, expenses paid and aggregate write-ins for deductions	646,405	606,458
Dividends paid to policyholders	4,567	5,194
Federal and foreign income taxes paid	179,052	224,684
Total	<u>1,173,035</u>	<u>1,106,116</u>
Net cash provided by operations	<u>456,544</u>	<u>444,809</u>
Cash from Investments		
Proceeds from investments sold, matured or repaid:		
Bonds	590,499	877,969
Miscellaneous proceeds	-	4,855
Total investment proceeds	<u>590,499</u>	<u>882,824</u>
Cost of investments acquired:		
Bonds	511,234	861,861
Other invested assets	27	262
Miscellaneous applications	17,235	4,052
Total investments acquired	<u>528,496</u>	<u>866,175</u>
Net cash provided by investments	<u>62,003</u>	<u>16,649</u>
Cash from Financing and Miscellaneous Sources		
Cash provided (applied)		
Dividends to stockholder	(440,000)	(550,000)
Other cash provided (applied)	35,155	57,915
Net cash used in financing and miscellaneous sources	<u>(404,845)</u>	<u>(492,085)</u>
Net change in cash and short-term investments	113,702	(30,627)
Cash and short-term investments - beginning of year	<u>23,924</u>	<u>54,551</u>
Cash and short-term investments - end of year	<u>\$ 137,626</u>	<u>\$ 23,924</u>

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

1. ORGANIZATION

Travelers Casualty and Surety Company of America (the Company) is a wholly-owned subsidiary of the Travelers Casualty and Surety Company (TCS), which in turn is an indirect wholly-owned subsidiary of The Travelers Companies, Inc. (TRV).

The following depicts via indentations, the relationship of the Company at December 31, 2017 to TRV, a publicly traded insurance holding company:

The Travelers Companies, Inc.
Travelers Property Casualty Corp.
Travelers Insurance Group Holdings Inc.
Travelers Casualty and Surety Company
Travelers Casualty and Surety Company of America

The Company is a stock property-casualty insurer licensed to write business in 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. The Company 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, and fiduciary liability and cyber risk for private companies and not-for-profit organizations (collectively referred to as Bond).

The Company primarily writes Bond business; however, similar non-Bond management and professional liability business for other customer segments including financial institutions, public companies and certain professionals including, among others, lawyers and design professionals is also written in the Company on a direct basis. Bond business is isolated on a net basis through the Company's participation in a cross-business reinsurance agreement with certain other property-casualty insurance subsidiaries of TRV. Under the terms of this agreement, all non-Bond business written by the Company is reinsured through the Travelers Reinsurance Pool (TRV Pool), an intercompany reinsurance pool, and substantially all Bond business written by certain TRV Pool participants is reinsured through the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The Company prepares its statutory financial statements in conformity with the accounting practices prescribed or permitted by the State of Connecticut. The State of Connecticut requires that insurance companies domiciled in Connecticut prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual*, subject to any deviations prescribed or permitted by the Connecticut Insurance Commissioner. The Company does not apply any statutory accounting practices that would be considered a permitted practice in its financial statements.
- B. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and losses and expenses during the reporting period. Actual results could differ from those estimates.
- C. Statutory accounting practices differ in certain respects from U.S. generally accepted accounting principles (US GAAP). The items of greatest significance are as follows:

Nonadmitted Assets: Certain assets designated as nonadmitted; some of which include, uncollected agents' balances over 90 days past due and a portion of deferred tax assets, are excluded from the statutory balance sheet and changes in such amounts are charged or credited directly to unassigned funds, a component of surplus as regards policyholders (policyholders' surplus).

Policy Acquisition Costs: The costs of acquiring both new and renewal insurance business are charged to income as incurred. Under US GAAP, such costs are deferred and amortized on a pro rata basis over the contract periods in which the related premiums are earned.

Reinsurance: Reserves for losses, loss adjustment expenses (LAE) and unearned premiums ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as required by US GAAP.

A liability is established for unsecured, unauthorized reinsurance and overdue authorized reinsurance recoverables. Under US GAAP, allowance accounts are provided for reinsurance recoverables on paid and unpaid losses deemed to be uncollectible.

Investments: Under US GAAP, bonds are categorized based on positive intent as "trading securities" (reported at fair value, with changes in fair value reported in earnings), "available for sale" securities (reported at fair value, with changes in fair value reported in equity), or "held to maturity" securities (reported at amortized cost). Under statutory reporting, bonds are valued according to statutory requirements as described below.

Deferred Tax Assets: Under statutory accounting practices, gross deferred tax assets are admitted subject to certain restrictions. The change in net deferred income tax is reported as a charge or credit directly to unassigned funds. Under US GAAP this change is reported as an adjustment to income.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

Other significant statutory accounting policies are as follows:

Premiums are recognized as revenues pro rata over the policy period. Unearned premium reserves represent the unexpired portion of policy premiums, net of reinsurance.

Realized investment gains and losses are included as a component of net income based upon specific identification of the investments sold on the trade date net of capital gains tax. Impairments are charged directly to net realized capital gains (losses) and are determined based on the continual review of investment portfolio valuations.

Unrealized investment gains and losses, net of deferred taxes, are credited or charged directly to unassigned funds.

Amounts recoverable from reinsurers are estimated in a manner consistent with the loss liability associated with the reinsured business. 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.

The provision for federal income taxes is comprised of two components: current income taxes and deferred income taxes. Deferred federal income taxes arise from changes during the year in cumulative temporary differences between the statutory basis and tax basis of assets and liabilities. Gross deferred tax assets are reduced by a statutory valuation allowance adjustment if, based on the weight of available evidence, it is more likely than not that some portion or all of the gross deferred tax assets will not be realized.

The Company utilizes anticipated investment income as a factor in the premium deficiency calculation.

Property-casualty reserves are established for loss and LAE and represent management's estimate of the ultimate cost of all unpaid reported and unreported claims incurred and related expenses. In establishing loss and LAE reserves, the Company also takes into account estimated recoveries, reinsurance, salvage and subrogation. The loss and LAE reserves are reviewed regularly by qualified actuaries employed by the Company. The Company continually refines its loss and LAE reserve estimates in a regular ongoing process as historical loss experience develops and additional claims are reported and settled. Because establishment of loss and LAE reserves is an inherently uncertain process involving estimates, currently established reserves may change. The Company reflects adjustments to loss and LAE reserves in the period in which the estimates change. Such changes in estimates could occur in a future period and may be material to the Company's net income in such period.

Invested assets are valued according to statutory requirements and the bases of valuation adopted by the NAIC as follows:

Short-term investments are stated at amortized cost and consist of investments with remaining maturities of one year or less at the time of acquisition.

Bonds are generally stated at amortized cost, except bonds that are defined by the NAIC as non-investment grade (NAIC Class 3-6) which are stated at the lower of amortized cost or NAIC fair value. Amortization is calculated using the constant yield method.

Common stocks of non-affiliates are stated at NAIC fair value based on fair values received from the Securities Valuation Office (SVO) or by a third party organization.

The Company's subsidiary investment in common stock is based on the net worth of the entity, determined in accordance with statutory accounting valuation methods. Dividends received from the subsidiary are recorded as net investment income and undistributed net income is recorded as net unrealized capital gains or (losses). At December 31, 2017 and 2016, the carrying value of the Company's subsidiary investment was \$326.0 million and \$321.3 million, respectively.

Loan-backed and structured securities are amortized using the retrospective method, except for securities that have incurred a decline in fair value that is other-than-temporary which are amortized using the prospective method. The effective yield used to determine amortization is calculated based on actual historical and projected future cash flows, which are obtained from a nationally recognized securities data provider.

The Company has investments in limited partnerships that generate certain federal and state tax credits which are used to offset federal taxes and state premium taxes. These investments are amortized as the tax credits are utilized.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

3. INVESTMENTS

A. Bonds:

Bonds by investment type (in millions):

	<u>Carrying value</u>	<u>Excess of fair value over carrying value</u>	<u>Excess of carrying value over fair value</u>	<u>Fair value</u>
<u>At December 31, 2017</u>				
U.S. government and government agencies and authorities	\$ 89.5	\$ 0.2	\$ (0.3)	\$ 89.4
States, territories and possessions	94.5	2.8	(0.5)	96.8
U.S. political subdivisions of states	1,131.5	37.8	(3.0)	1,166.3
U.S. special revenue and special assessment obligations	783.9	30.0	(1.7)	812.2
Industrial and miscellaneous	1,202.3	26.2	(4.6)	1,223.9
Loan-backed securities	30.3	1.5	(0.1)	31.7
Structured securities	40.8	1.8	(0.1)	42.5
Total bonds	<u>\$ 3,372.8</u>	<u>\$ 100.3</u>	<u>\$ (10.3)</u>	<u>\$ 3,462.8</u>

	<u>Carrying value</u>	<u>Excess of fair value over carrying value</u>	<u>Excess of carrying value over fair value</u>	<u>Fair value</u>
<u>At December 31, 2016</u>				
U.S. government and government agencies and authorities	\$ 29.7	\$ 0.2	\$ (0.1)	\$ 29.8
States, territories and possessions	146.2	4.7	(2.6)	148.3
U.S. political subdivisions of states	1,231.2	30.9	(18.0)	1,244.1
U.S. special revenue and special assessment obligations	844.4	25.4	(9.7)	860.1
Industrial and miscellaneous	1,135.6	30.0	(7.7)	1,157.9
Loan-backed securities	35.7	2.1	-	37.8
Structured securities	49.3	2.4	-	51.7
Total bonds	<u>\$ 3,472.1</u>	<u>\$ 95.7</u>	<u>\$ (38.1)</u>	<u>\$ 3,529.7</u>

The carrying value of bonds is generally amortized cost, except bonds that are rated by the NAIC as non-investment grade (i.e. NAIC Class 3-6), which are reported at the lower of amortized cost or NAIC fair value. Unit prices published by the SVO, if available, are used to calculate the fair value amount disclosed. In the absence of SVO published unit prices, or when amortized cost is used by the SVO as unit price, quoted market prices by other third party organizations, if available, are used to calculate the fair value of financial instruments.

The carrying value and fair value of bonds at December 31, 2017, by maturity are shown below, separating out loan-backed securities and structured securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in millions)	<u>Carrying value</u>	<u>Fair value</u>
One year or less	\$ 281.3	\$ 284.8
Over 1 year through 5 years	825.9	850.0
Over 5 years through 10 years	861.2	882.8
Over 10 years	1,333.3	1,371.0
Loan-backed securities	30.3	31.7
Structured securities	40.8	42.5
Total bonds	<u>\$ 3,372.8</u>	<u>\$ 3,462.8</u>

Proceeds from sales of bonds were \$206.0 million and \$473.3 million in 2017 and 2016, respectively. Gross gains of \$0.2 million and \$5.0 million in 2017 and 2016, respectively, and gross losses of \$2.2 million and \$1.1 million in 2017 and 2016, respectively, were realized on those sales.

Included in bonds are investments in non-investment grade bonds totaling \$27.1 million and \$25.9 million at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the Company had \$7.9 million and \$6.7 million, respectively, of securities on deposit at financial institutions in certain states pursuant to the respective states' insurance regulatory authorities.

The Company recognized \$1.8 million of investment income related to prepayment penalties and/or acceleration fees on 33 unique CUSIPs called by various issuers during 2017.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

B. Loan-Backed and Structured Securities:

The Company applies the retrospective method of revaluing loan-backed securities. The Company's loan-backed securities are revalued quarterly using the constant effective yield method which includes an adjustment for estimated principal prepayments, if any. The effective yield used to determine amortization for these securities is recalculated and adjusted periodically based upon actual historical and/or projected future cash flows. The Company changes from the retrospective to prospective method for valuing the securities when an other-than-temporary impairment has been recorded.

For collateralized mortgage obligations, asset-backed securities and pass-through certificates prepayment assumptions are adjusted periodically.

When unit prices published by the SVO are not available, the Company uses a nationally recognized pricing service, as well as broker quotes in determining the fair value of its loan-backed securities.

The Company determines an other-than-temporary impairment 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 capital gains (losses). 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 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.

The Company had no loan-backed or structured securities with other-than-temporary impairments recognized in 2017.

C. Concentrations:

At December 31, 2017 and 2016, the Company was not exposed to any concentration of credit risk of a single issuer greater than 5% of policyholders' surplus of the Company.

The Company participates in a short-term investment pool maintained by an affiliate. See Note 7 for discussion.

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.

D. Other-Than-Temporary Impairment of Certain Securities:

The Company recognizes an impairment loss when an invested asset's value declines below cost, adjusted for accretion, amortization and previous other-than-temporary impairments (new cost basis), and the change is deemed to be other-than-temporary, or if it is determined that the Company will not be able to recover all amounts due pursuant to the issuers' contractual obligations prior to sale or maturity. When the Company determines that an invested asset is other-than-temporarily impaired, the invested asset is written down to fair value for securities other than loan-backed and structured securities, and the amount of the impairment is included in earnings as a realized capital loss. The fair value then becomes the new cost basis of the investment and any subsequent recoveries in fair value are recognized at disposition.

The Company recognizes a realized loss when impairment is deemed to be other-than-temporary even if a decision to sell an invested asset has not been made. When the Company intends to sell a temporarily impaired invested asset and the Company does not expect the fair value of the invested asset to fully recover prior to the expected time of sale, the invested asset is deemed to be other-than-temporarily impaired in the period in which the decision to sell is made.

Factors considered in determining whether a decline is other-than-temporary include the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, the length of time and the extent to which fair value has been below cost and the financial condition and near-term prospects of the issuer.

The Company's process for identifying and reviewing invested assets for impairments during any quarter includes the following:

- Identification and evaluation of investments that have possible indications of other-than-temporary impairment, which includes an analysis of investments with gross unrealized investment losses that have fair values less than 80% of cost for six consecutive months or more;
- Review of portfolio manager(s) recommendations for other-than-temporary impairments based on the investee's current financial condition, liquidity, near-term recovery prospects and other factors;
- Consideration of evidential matter, including an evaluation of factors or triggers that may or may not cause individual investments to qualify as having other-than-temporary impairments; and
- Determination of the status of each analyzed investment as other-than-temporary or not, with documentation of the rationale for the decision.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

The following tables summarize, for all bonds in an unrealized loss position at December 31, 2017 and 2016, the aggregate fair value and gross unrealized loss by length of time those securities that have been continuously in an unrealized loss position. The gross unrealized loss is the amount by which cost or amortized cost exceeds fair value for securities rated in all NAIC classes.

(in millions)	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>At December 31, 2017</u>						
U.S. government and government agencies and authorities	\$ 71.7	\$ 0.3	\$ 15.8	\$ 0.2	\$ 87.5	\$ 0.5
States, territories and possessions	-	-	19.1	0.5	19.1	0.5
U.S. political subdivisions of states	-	-	171.9	3.0	171.9	3.0
U.S. special revenue and special assessment obligations	1.1	-	128.4	1.7	129.5	1.7
Industrial and miscellaneous	140.0	1.4	135.0	3.5	275.0	4.9
Loan-backed securities	-	-	8.4	0.1	8.4	0.1
Structured securities	<u>6.1</u>	<u>0.1</u>	<u>1.9</u>	<u>-</u>	<u>8.0</u>	<u>0.1</u>
Total bonds	\$ 218.9	\$ 1.8	\$ 480.5	\$ 9.0	\$ 699.4	\$ 10.8

(in millions)	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>At December 31, 2016</u>						
U.S. government and government agencies and authorities	\$ 27.7	\$ 0.2	\$ -	\$ -	\$ 27.7	\$ 0.2
States, territories and possessions	37.2	2.6	-	-	37.2	2.6
U.S. political subdivisions of states	348.3	18.0	-	-	348.3	18.0
U.S. special revenue and special assessment obligations	197.2	9.7	-	-	197.2	9.7
Industrial and miscellaneous	279.2	7.4	20.1	1.1	299.3	8.5
Loan-backed securities	8.8	-	-	-	8.8	-
Structured securities	<u>7.1</u>	<u>-</u>	<u>3.4</u>	<u>-</u>	<u>10.5</u>	<u>-</u>
Total bonds	\$ 905.5	\$ 37.9	\$ 23.5	\$ 1.1	\$ 929.0	\$ 39.0

There were no impairments related to bonds in 2017. Impairments related to bonds were \$2.0 million in 2016.

E. Investments in Low-Income Housing Tax Credits (LIHTC):

The Company has investments in certain federal and state sponsored LIHTC properties. The federally sponsored LIHTC property investments primarily generate federal tax credits which allow the Company to offset federal taxes and are projected to be available through 2028. The state sponsored LIHTC property investments primarily generate premium tax credits which allow the Company to offset premium taxes in Georgia and are projected to be available through 2028.

At December 31, 2017, the Company had unfunded commitments of \$2.6 million related to LIHTC investments.

In both 2017 and 2016, \$816 thousand of tax benefits related to LIHTC were recognized. The balance of the investments in LIHTC at December 31, 2017 and 2016 was \$2.6 million and \$3.1 million, respectively.

Management of the Company is not aware of any of the LIHTC investments and related properties being the subject of any state regulatory reviews.

Current LIHTC investments do not exceed 10% of the Company's total net admitted assets.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

F. State Transferable Tax Credits:

State transferable tax credits held by the Company at December 31 were as follows (in millions):

State	2017		2016	
	Carrying Value	Unused Amount	Carrying Value	Unused Amount
OR	\$ 2.0	\$ 2.0	\$ 1.3	\$ 1.3
PA	1.4	1.4	1.7	1.7
AR	0.9	0.9	1.2	1.2
CT	0.7	0.7	0.8	0.8
WY	0.2	0.2	0.3	0.3
NE	0.2	0.2	0.3	0.3
MD	0.1	0.1	0.2	0.2
Total	<u>\$ 5.5</u>	<u>\$ 5.5</u>	<u>\$ 5.8</u>	<u>\$ 5.8</u>

These tax credits are reported in "Aggregate write-ins for other than invested assets" and have been admitted in accordance with the guidance as presented in SSAP No. 94R, *Transferable and Non-Transferable State Tax Credits* and SSAP No. 4, *Assets and Nonadmitted Assets* and are utilized per a set schedule as outlined in the related purchase agreements.

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.

A. 1. Securities measured and reported at fair value for the years ended:

December 31, 2017 (in millions)

Description	Level 1	Level 2	Level 3	Total
Bonds				
U.S. special revenue	\$ -	\$ 0.3	\$ -	\$ 0.3
Industrial and miscellaneous	1.0	3.8	-	4.8
Total securities at fair value	<u>\$ 1.0</u>	<u>\$ 4.1</u>	<u>\$ -</u>	<u>\$ 5.1</u>

December 31, 2016 (in millions)

Description	Level 1	Level 2	Level 3	Total
Bonds				
Industrial and miscellaneous	\$ -	\$ 10.2	\$ -	\$ 10.2
Total securities at fair value	<u>\$ -</u>	<u>\$ 10.2</u>	<u>\$ -</u>	<u>\$ 10.2</u>

At December 31, 2017 and 2016, the Company reported Level 3 industrial and miscellaneous bonds and Level 3 industrial and miscellaneous common stock, both measured and reported at their fair value of \$0.

There were no transfers between Level 1 and Level 2 during 2017 or 2016.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

2. Level 2 and Level 3 valuation techniques:

The fair values of bonds are determined by the Company in accordance with NAIC guidelines. These securities are generally priced by the SVO or by a third party organization.

The Company holds unaffiliated common stock where the fair value estimate is determined by an internal portfolio 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 in Level 3.

- B. The Company uses various financial instruments in the normal course of its business. Certain insurance contracts are excluded by SSAP No. 100, *Fair Value*, and, therefore, are not included in the amounts discussed.

The carrying values of cash and short-term investments and investment income accrued approximate their fair values.

- C. The following tables provide the aggregate fair value and reported aggregate admitted asset value by type of financial instrument; and the hierarchy level in which the fair values fall (in millions):

(At December 31, 2017)	Aggregate	Admitted			
<u>Description</u>	<u>Fair Value</u>	<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short term bonds	\$ 157.4	\$ 157.4	\$ 36.5	\$ 120.9	\$ -
Long term bonds	3,462.8	3,372.8	89.5	3,372.4	0.9
Common stock	-	-	-	-	-

(At December 31, 2016)	Aggregate	Admitted			
<u>Description</u>	<u>Fair Value</u>	<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short term bonds	\$ 45.6	\$ 45.6	\$ 11.0	\$ 34.6	\$ -
Long term bonds	3,529.7	3,472.1	28.8	3,500.0	0.9
Common stock	-	-	-	-	-

5. INVESTMENT INCOME

- A. Policyholders' surplus excludes due and accrued investment income if amounts are over 90 days past due.

- B. The Company had no past due accrued investment income at December 31, 2017 and 2016.

6. INCOME TAXES

- A. The components of the net deferred tax asset/(liability) at December 31 are as follows (in millions):

	December 31, 2017		
	Ordinary	Capital	Total
1. a. Gross deferred tax assets	\$ 64.8	\$ 0.2	\$ 65.0
b. Statutory valuation allowance adjustment	-	-	-
c. Adjusted gross deferred tax assets	64.8	0.2	65.0
d. Deferred tax assets nonadmitted	-	-	-
e. Subtotal (net deferred tax assets)	64.8	0.2	65.0
f. Deferred tax liabilities	11.7	7.0	18.7
g. Net admitted deferred tax asset (liability)	\$ 53.1	\$ (6.8)	\$ 46.3

	December 31, 2016		
	Ordinary	Capital	Total
a. Gross deferred tax assets	\$ 87.3	\$ 0.6	\$ 87.9
b. Statutory valuation allowance adjustment	-	-	-
c. Adjusted gross deferred tax assets	87.3	0.6	87.9
d. Deferred tax assets nonadmitted	6.1	-	6.1
e. Subtotal (net deferred tax assets)	81.2	0.6	81.8
f. Deferred tax liabilities	0.3	11.9	12.2
g. Net admitted deferred tax asset (liability)	\$ 80.9	\$ (11.3)	\$ 69.6

(continued)

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

	<u>Change</u>		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
a. Gross deferred tax assets	\$ (22.5)	\$ (0.4)	\$ (22.9)
b. Statutory valuation allowance adjustment	-	-	-
c. Adjusted gross deferred tax assets	<u>(22.5)</u>	<u>(0.4)</u>	<u>(22.9)</u>
d. Deferred tax assets nonadmitted	<u>(6.1)</u>	<u>-</u>	<u>(6.1)</u>
e. Subtotal (net deferred tax assets)	(16.4)	(0.4)	(16.8)
f. Deferred tax liabilities	11.4	(4.9)	6.5
g. Net admitted deferred tax asset (liability)	<u>\$ (27.8)</u>	<u>\$ 4.5</u>	<u>\$ (23.3)</u>

2. Admission Calculation Components SSAP No. 101:

December 31, 2017

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
a. Federal income taxes paid in prior years recoverable through loss carrybacks.	\$ 40.8	\$ 0.1	\$ 40.9
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (the lesser of 2(b)1 and 2(b)2 below)	9.8	-	9.8
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date.	9.8	-	9.8
2. Adjusted gross deferred tax assets per limitation threshold.	xxxx	xxxx	295.5
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities.	<u>14.2</u>	<u>0.1</u>	<u>14.3</u>
d. Deferred tax assets admitted as the result of application of SSAP No. 101.			
Total (2(a) + 2(b) + 2(c))	64.8	0.2	65.0
Deferred tax liabilities netted against deferred tax assets	11.7	7.0	18.7
Total	<u>\$ 53.1</u>	<u>\$ (6.8)</u>	<u>\$ 46.3</u>

December 31, 2016

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
a. Federal income taxes paid in prior years recoverable through loss carrybacks.	\$ 55.5	\$ 0.3	\$ 55.8
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (the lesser of 2(b)1 and 2(b)2 below)	13.8	-	13.8
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date.	13.8	-	13.8
2. Adjusted gross deferred tax assets per limitation threshold.	xxxx	xxxx	302.8
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities.	<u>11.9</u>	<u>0.3</u>	<u>12.2</u>
d. Deferred tax assets admitted as the result of application of SSAP No. 101.			
Total (2(a) + 2(b) + 2(c))	81.2	0.6	81.8
Deferred tax liabilities netted against deferred tax assets	0.3	11.9	12.2
Total	<u>\$ 80.9</u>	<u>\$ (11.3)</u>	<u>\$ 69.6</u>

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

	<u>Change</u>		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
a. Federal income taxes paid in prior years recoverable through loss carrybacks.	\$ (14.7)	\$ (0.2)	\$ (14.9)
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (the lesser of 2(b)1 and 2(b)2 below)	(4.0)	-	(4.0)
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date.	(4.0)	-	(4.0)
2. Adjusted gross deferred tax assets per limitation threshold.	xxxx	xxxx	(7.3)
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities.	<u>2.3</u>	<u>(0.2)</u>	<u>2.1</u>
d. Deferred tax assets admitted as the result of application of SSAP No. 101.			
Total (2(a) + 2(b) + 2(c))	(16.4)	(0.4)	(16.8)
Deferred tax liabilities netted against deferred tax assets	11.4	(4.9)	6.5
Total	<u>\$ (27.8)</u>	<u>\$ 4.5</u>	<u>\$ (23.3)</u>

	<u>2017</u>	<u>2016</u>
3. a. Ratio percentage used to determine recovery period and threshold limitation amount.	1,571%	1,672%
b. Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above.	\$ 1,970.3	\$ 2,018.6

4. Impact of Tax Planning Strategies:

December 31, 2017

	<u>Ordinary</u>	<u>Capital</u>
a. Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character, as a percentage.		
1. Adjusted gross deferred tax assets amounts from Note 6A1(c).	\$ 64.8	\$ 0.2
2. Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies.	0%	0%
3. Net admitted adjusted gross deferred tax assets amounts from Note 6A1(e).	\$ 64.8	\$ 0.2
4. Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies.	4%	24%

December 31, 2016

	<u>Ordinary</u>	<u>Capital</u>
a. Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character, as a percentage.		
1. Adjusted gross deferred tax assets amounts from Note 6A1(c).	\$ 87.3	\$ 0.6
2. Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies.	0%	0%

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

3. Net admitted adjusted gross deferred tax assets amounts from Note 6A1(e).	\$	81.2	\$	0.6
4. Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies.		13%		0%

	<u>Change</u>	
	<u>Ordinary</u>	<u>Capital</u>
a. Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character, as a percentage.		
1. Adjusted gross deferred tax assets amounts from Note 6A1(c).	\$ (22.5)	\$ (0.4)
2. Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies.	0%	0%
3. Net admitted adjusted gross deferred tax assets amounts from Note 6A1(e).	\$ (16.4)	\$ (0.4)
4. Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies.	-9%	24%
b. Does the Company's tax-planning strategies include the use of reinsurance?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

B. The provisions for incurred tax on earnings are as follows (in millions):

	<u>December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
1. Current Income Tax:			
Federal	\$ 168.5	\$ 220.4	\$ (51.9)
Foreign	0.3	0.1	0.2
Subtotal	168.8	220.5	(51.7)
Federal income taxes on net capital gains	0.2	0.4	(0.2)
Federal and foreign income taxes incurred	<u>\$ 169.0</u>	<u>\$ 220.9</u>	<u>\$ (51.9)</u>

2. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets are as follows:

	<u>December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
<u>Ordinary:</u>			
Discounting of unpaid losses	\$ 18.3	\$ 13.7	\$ 4.6
Unearned premium reserve	38.7	61.7	(23.0)
Nonadmitted assets	6.7	11.5	(4.8)
Other	1.1	0.4	0.7
Total ordinary deferred tax assets	<u>\$ 64.8</u>	<u>\$ 87.3</u>	<u>\$ (22.5)</u>
Statutory valuation allowance adjustment	-	-	-
Nonadmitted deferred tax assets	-	6.1	(6.1)
Admitted ordinary deferred tax assets	<u>\$ 64.8</u>	<u>\$ 81.2</u>	<u>\$ (16.4)</u>
<u>Capital:</u>			
Investments	\$ 0.2	\$ 0.6	\$ (0.4)
Total capital deferred tax assets	<u>\$ 0.2</u>	<u>\$ 0.6</u>	<u>\$ (0.4)</u>
Statutory valuation allowance adjustment	-	-	-
Nonadmitted deferred tax assets	-	-	-
Admitted capital deferred tax assets	<u>\$ 0.2</u>	<u>\$ 0.6</u>	<u>\$ (0.4)</u>
Total admitted deferred tax assets:	<u>\$ 65.0</u>	<u>\$ 81.8</u>	<u>\$ (16.8)</u>

(continued)

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

3. The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities are as follows:

	<u>December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
<u>Ordinary:</u>			
Investments	\$ 0.5	\$ 0.2	\$ 0.3
Advance premium expenses	0.1	0.1	-
Loss and LAE reserve discounting (transition rule)	11.1	-	11.1
Total ordinary deferred tax liabilities	<u>\$ 11.7</u>	<u>\$ 0.3</u>	<u>\$ 11.4</u>
<u>Capital:</u>			
Investments	\$ 7.0	\$ 11.9	\$ (4.9)
Total capital deferred tax liabilities	<u>\$ 7.0</u>	<u>\$ 11.9</u>	<u>\$ (4.9)</u>
Total deferred tax liabilities:	<u>\$ 18.7</u>	<u>\$ 12.2</u>	<u>\$ 6.5</u>
4. Net admitted deferred tax asset/(liability)	<u>\$ 46.3</u>	<u>\$ 69.6</u>	<u>\$ (23.3)</u>

5. Deferred income taxes do not include any benefit from investment tax credits.

6. Deferred income taxes do not include a benefit from net operating losses.

7. The decrease to net deferred tax assets for the effects of enactment of the Tax Cuts and Jobs Act (TCJA) of 2017 is \$30.9 million.

The Company has recorded provisional amounts for tax imposed on partnership investments as well as the amount due under the transition rule relating to the change in discounting of incurred losses based on information available at December 31, 2017. As a result of the Company's normal U.S. income tax return preparation process, the Company expects taxes related to partnerships to be adjusted as final earnings from partnership investments (Form K-1's) are received in 2018 for preparation of the Company's 2017 U.S. income tax return that will be filed in 2018. The amounts payable under the transition rules related to discounting have been estimated but are subject to change once the U.S. Treasury issues guidance sometime in 2018. Adjustments to temporary differences will result from the reduced income tax rate applied to the deferred taxes associated with these items. Provisional amounts may also be adjusted to the extent future clarifications of the TCJA of 2017 are provided.

8. There are no adjustments to gross deferred tax assets because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset.

9. The change in net deferred income taxes is comprised of the following:

	<u>December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Total deferred tax assets	\$ 65.0	\$ 87.9	\$ (22.9)
Total deferred tax liabilities	18.7	12.2	6.5
Net deferred tax asset/(liability)	<u>\$ 46.3</u>	<u>\$ 75.7</u>	<u>(29.4)</u>
Tax effect of unrealized gains (losses)			0.3
Change in net deferred income tax			<u>\$ (29.1)</u>

C. The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate before income tax. The significant items causing this difference are as follows (in millions):

Rate Reconciliation:

	<u>December 31, 2017</u>
Pretax net income	\$ 556.0
Taxes at statutory rate	194.6
Increase (decrease) attributable to:	
Nontaxable investment income	(21.2)
Impact of TCJA at enactment	30.9
Other	(6.2)
	<u>\$ 198.1</u>
Federal and foreign taxes incurred	\$ 169.0
Change in net deferred taxes	29.1
Total statutory income tax	<u>\$ 198.1</u>
Effective tax rate	35.6%

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

- D. 1. The Company has no net operating loss carryforward available for tax purposes.
2. Federal income taxes incurred by the Company in 2017, 2016 and 2015 of \$175.5 million, \$214.6 million, and \$3.8 million, respectively, will be available for recoupment in the event of future losses.
3. The Company has no protective tax deposits with the Internal Revenue Service (IRS) under Section 6603 of the Internal Revenue Code.
- E. 1. The Company is included in a consolidated federal income tax return with its ultimate parent company, TRV.
2. The Company is a party to a tax allocation agreement that sets forth the manner in which total consolidated federal income tax is allocated among companies included in the consolidated return. Member companies included in the TRV consolidated return are allocated taxes annually based upon their separate taxable income. Companies with a current federal income tax receivable from TRV will receive settlement to the extent that such receivables are for tax benefits that have been utilized in the consolidated federal income tax return. Member companies are reimbursed by TRV in the event the IRS levies upon a member's assets for unpaid taxes in excess of the amount specifically allocated to a member.
- In the event that the consolidated group develops an Alternative Minimum Tax (AMT), each company with an AMT on a separate company basis will be allocated a portion of the consolidated AMT. Settlement of the AMT will be made in the same manner and timing as the regular federal income tax. For 2017, the consolidated group does not expect to be in an AMT position. For 2018 and forward, the TCJA of 2017 repealed the AMT.
- F. The Company does not believe it is reasonably possible that the liability related to any federal or foreign tax loss contingencies may significantly increase within the next 12 months.

7. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AFFILIATES AND OTHER RELATED PARTIES

- A. (1) The principal banking functions for the property-casualty operations of TRV and its affiliated property-casualty insurance companies are handled by The Travelers Indemnity Company (Indemnity). Settlements between the companies are made at least monthly.
- (2) TRV maintains a private short-term investment pool, known as the Travelers Money Market Liquidity Pool (TRVMMLP), in which affiliated companies may participate. The TRVMMLP is managed by Indemnity. Each company may convert its position in the TRVMMLP into cash at any time and may also use its position in the TRVMMLP to settle transactions with other affiliated participants in the TRVMMLP. The position of each company in the TRVMMLP is calculated and adjusted daily. Each participating insurance company carries its share of the TRVMMLP as a short-term investment. The Company's share of the TRVMMLP was \$157.4 million and \$45.6 million at December 31, 2017 and 2016, respectively.
- In 2017 and 2016, the Company sold \$80.1 million and \$175.3 million of securities to the TRVMMLP, respectively.
- (3) In December 2016, the Company sold \$185.5 million of securities to its affiliate, St. Paul Fire and Marine Insurance Company.
- (4) The Company participates in a cross-business reinsurance agreement and two excess of loss reinsurance agreements with certain affiliates who participate in the TRV Pool. See Note 13 for additional detail.
- B. At December 31, 2017 and 2016, the Company had \$21.5 million and \$9.7 million receivable from affiliates, respectively. Substantially all of the accounts between and among the Company and its affiliates are settled at least monthly through the TRVMMLP or in cash.
- C. Material management or service contracts and cost sharing arrangements, involving the Company or any affiliate, other than cost allocation arrangements, are as follows:

<u>TYPE OF CONTRACT AND DESCRIPTION</u>	<u>SERVICING COMPANY</u>	<u>OTHER PARTY</u>
Amended and Restated Expense Allocation	The Travelers Indemnity Company	Travelers P&C ⁽¹⁾
Reinsurance Allocation	The Travelers Indemnity Company	Travelers P&C ⁽¹⁾

⁽¹⁾ "Travelers P&C" includes The Travelers Indemnity Company and some or all of its insurance subsidiaries and affiliates.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

D. The table below provides information on subsidiary, controlled and affiliated (SCA) investments, excluding investments in U.S. insurance SCA entities.

1. Balance Sheet Value All SCAs (in millions):

<u>SCA Entity</u> SSAP No. 97 8b(iii) Entities Travelers Global, Inc.	<u>Percentage Of SCA Ownership</u>	<u>12/31/2017 Gross Amount</u>	<u>12/31/2017 Admitted Amount</u>	<u>12/31/2017 Nonadmitted Amount</u>
	100.00%	\$ 332.6	\$ 326.0	\$ 6.6

2. NAIC Filing Response Information:

The Sub-1 filing for Travelers Global, Inc. was made on November 28, 2016.

8. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company accounts for pension and postretirement benefit expenses as consolidated/holding company plans under SSAP No. 102, *Pensions* and SSAP No. 92, *Postretirement Benefits Other Than Pensions*.

A. Consolidated/Holding Company Plans:

1. Employee Retirement Plans:

The Company participates in a qualified noncontributory defined benefit pension plan sponsored by TRV that provides benefits, primarily under a cash balance formula, for substantially all employees of the Company and its property-casualty affiliates. In addition the Company participates in nonqualified defined benefit pension plans sponsored by TRV which cover certain highly-compensated employees of the Company and its property-casualty affiliates. The Company has no legal obligation for benefits under these plans. The Company is charged for its allocable share of pension expense for these plans based on its allocated and/or direct salary costs in accordance with an expense allocation agreement. The Company's allocated share of the pension expense was \$5.6 million and \$4.7 million for 2017 and 2016, respectively.

2. Postretirement Benefit Plan:

The Company participates in a postretirement health and life insurance benefit plan sponsored by TRV for employees of the Company and its property-casualty affiliates that satisfy certain age and service requirements and for certain retirees. The Company has no legal obligation for benefits under this plan. The Company is charged for its allocable share of postretirement benefit expense for this plan based on its allocated and/or direct salary costs in accordance with an expense allocation agreement. The Company's allocated share of the postretirement benefit expense was \$155 thousand and \$194 thousand for 2017 and 2016, respectively.

3. 401(k) Savings Plan:

The Company participates in a 401(k) savings plan sponsored by TRV for substantially all employees of the Company and its property-casualty affiliates. The Company has no legal obligation for benefits under this plan. The Company is charged for its allocable share of expense for this plan based on its allocated and/or direct salary costs in accordance with an expense allocation agreement. The Company's allocated share of the 401(k) savings plan expense was \$6.9 million and \$6.6 million for 2017 and 2016, respectively.

B. Incentive Plans:

The Company participates in a share-based incentive compensation plan, The Travelers Companies, Inc. Amended and Restated 2014 Stock Incentive Plan (the 2014 Incentive Plan), the purposes of which are to align the interests of TRV's non-employee directors, executive officers and other employees with those of TRV's shareholders and to attract and retain personnel by providing incentives in the form of share-based awards. The 2014 Incentive Plan permits grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock, deferred stock units, performance awards and other share-based or share-denominated awards with respect to TRV's common stock. TRV has a policy of issuing new shares to settle the exercise of stock option awards and the vesting of other equity awards.

The number of shares of TRV's common stock initially authorized for grant under the 2014 Incentive Plan was 10 million shares. In May 2017 and 2016, TRV's shareholders authorized an additional 2.5 million and 4.4 million shares of TRV's common stock, respectively, for grant under the 2014 Incentive Plan. The following are not counted towards the combined 16.9 million shares available and will be available for future grants under the 2014 Incentive Plan: (i) shares of common stock subject to awards that expire unexercised, that are forfeited, terminated or canceled, that are settled in cash or other forms of property, or otherwise do not result in the issuance of shares of common stock, in whole or in part; (ii) shares that are used to pay the exercise price of stock options and shares used to pay withholding taxes on awards generally; and (iii) shares purchased by TRV on the open market using cash option exercise proceeds; provided, however, that the increase in the number of shares of common stock available for grant pursuant to such market purchases shall not be greater than the number that could be repurchased at fair market value on the date of exercise of the stock option giving rise to such option proceeds. In addition, the 16.9 million shares authorized by shareholders for issuance under the 2014 Incentive Plan will be increased by any shares subject to awards under The Travelers Companies, Inc. Amended and Restated 2004 Stock Incentive Plan (2004 Incentive Plan) that were

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

outstanding as of May 27, 2014 and subsequently expire, are forfeited, canceled, settled in cash or otherwise terminate without the issuance of shares.

Stock Option Awards

Stock option awards granted to eligible officers and key employees have a ten-year term. All stock options are granted with an exercise price equal to the closing price of TRV's common stock on the date of grant. The stock options granted generally vest upon meeting certain years of service criteria. Except as the Compensation Committee of the TRV Board of Directors may allow in the future, stock options cannot be sold or transferred by the participant. Stock options outstanding under the 2014 Incentive Plan and the 2004 Incentive Plan generally vest three years after grant date (cliff vest).

A summary of stock option activity under the 2014 Incentive Plan and the legacy plans as of and for the year ended December 31, 2017 is as follows:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value (\$ in millions)
Outstanding, beginning of year	8,560,036	\$ 87.36		
Original grants	2,106,022	118.78		
Exercised	(1,784,731)	73.19		
Forfeited or expired	(168,860)	108.25		
Outstanding, end of year	8,712,467	\$ 97.45	6.9 Years	\$ 333
Vested at end of year ⁽¹⁾	5,530,589	\$ 89.67	6.1 Years	\$ 254
Exercisable at end of year	2,835,011	\$ 70.33	4.2 Years	\$ 185

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

On February 6, 2018, TRV, under the 2014 Incentive Plan, granted 1,632,361 stock option awards with an exercise price of \$140.85 per share. The fair value attributable to the stock option awards on the date of grant was \$20.13 per share.

Restricted Stock Units, Deferred Stock Units and Performance Share Award Programs

TRV issues restricted stock unit awards to eligible officers and key employees under the Equity Awards program established pursuant to the 2014 Incentive Plan. A restricted stock unit represents the right to receive a share of common stock. These restricted stock unit awards are granted at market price, generally vest three years from the date of grant, do not have voting rights and the underlying shares of common stock are not issued until the vesting criteria is satisfied. In addition, TRV's Board of Directors can be issued deferred stock units from (i) an annual award; (ii) deferred compensation (in lieu of cash retainer); and (iii) dividend equivalents earned on outstanding deferred compensation.

TRV also has a Performance Share Awards Program established pursuant to the 2004 Incentive Plan and which continues pursuant to the 2014 Incentive Plan. Under the program, TRV may issue performance share awards to certain employees of TRV who hold positions of Vice President (or its equivalent) or above. The performance share awards provide the recipient the right to earn shares of TRV's common stock based upon TRV's attainment of certain performance goals and the recipient meeting certain years of service criteria. The performance goals for performance share awards are based on TRV's adjusted return on equity over a three-year performance period. Vesting of performance shares is contingent upon TRV attaining the relevant performance period minimum threshold return on equity and the recipient meeting certain years of service criteria, generally three years for full vesting, subject to proration for certain termination conditions. If the performance period return on equity is below the minimum threshold, none of the performance shares will vest. If performance meets or exceeds the minimum performance threshold, a range of performance shares will vest (50% to 150% for awards granted in 2016, 2017 and 2018), depending on the actual return on equity attained.

The fair value of restricted stock units, deferred stock units and performance shares is measured at the market price of TRV stock at date of grant. Under terms of the 2014 Incentive Plan, holders of deferred stock units and performance shares may receive dividend equivalents.

The total fair value of shares that vested during the years ended December 31, 2017 and 2016 was \$166 million and \$175 million, respectively.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

A summary of restricted stock units, deferred stock units and performance share activity under the 2014 Incentive Plan and the legacy plans as of and for the year ended December 31, 2017 is as follows:

Other Equity Instruments	Restricted and Deferred Stock Units		Performance Shares	
	Number	Weighted Average Grant-Date Fair Value	Number	Weighted Average Grant-Date Fair Value
Nonvested, beginning of year	1,376,492	\$ 97.75	796,618	\$ 106.03
Granted	640,913	120.03	393,509	118.78
Vested	(662,680) ⁽¹⁾	90.91	(396,608) ⁽²⁾	106.04
Forfeited	(67,755)	109.61	(43,445)	109.49
Performance-based adjustment	—	—	37,658 ⁽³⁾	110.09
Nonvested, end of year	<u>1,286,970</u>	\$ 111.74	<u>787,732</u>	\$ 112.40

⁽¹⁾ Represents awards for which the requisite service has been rendered.

⁽²⁾ Reflects the number of performance shares attributable to the performance goals attained over the completed performance period (three years) and for which service conditions have been met.

⁽³⁾ Represents the current year change in estimated performance shares to reflect the attainment of performance goals for the awards that were granted in each of the years 2015 through 2017.

In addition to the nonvested shares presented in the above table, there are related nonvested dividend equivalent shares. The number of nonvested dividend equivalent shares related to deferred stock units was 408 at the beginning of the year and 379 at the end of the year and the number of nonvested dividend equivalent shares related to performance shares was 28,480 at the beginning of the year and 26,584 at the end of the year. The dividend equivalent shares are subject to the same vesting terms as the deferred stock units and performance shares.

On February 6, 2018, TRV, under the 2014 Incentive Plan, granted 805,432 common stock awards in the form of restricted stock units, deferred stock units and performance share awards to participating officers, non-employee directors and other key employees. The restricted stock units and deferred stock units totaled 486,024 shares while the performance share awards totaled 319,408 shares. The fair value per share attributable to the common stock awards on the date of grant was \$140.85.

9. CAPITAL AND SURPLUS AND DIVIDEND RESTRICTIONS

The Company has 10,000 shares of common capital stock authorized and 5,400 shares issued and outstanding with a par value of \$1,200 per share.

The Company paid ordinary dividends of \$440 million on December 20, 2017, to its parent company, TCS. On December 19, 2016, the Company paid ordinary dividends of \$470 million and extraordinary dividends of \$80 million for a total of \$550 million to TCS. Timely notice of each dividend was provided to the State of Connecticut Insurance Department.

Dividends to the shareholder and the proportion of the profits of the Company that may be paid to the shareholder is not limited by charter. The maximum amount of dividends which can be paid by the Company to the shareholder without prior approval of the Insurance Commissioner of the State of Connecticut is subject to restrictions relating to statutory surplus or net income. The maximum amount of dividends to the shareholder that can be made during 2018 without prior approval is \$386.941 million.

There are no restrictions on the use of the Company's unassigned funds and such funds are held for the benefit of the shareholder, except for the dividend restrictions indicated above.

The change in the balance of special surplus from retroactive reinsurance is a result of ongoing activity occurring in 2017. See Note 13D for additional detail.

As of December 31, 2017, unassigned funds have been decreased by cumulative net unrealized losses of \$187.9 million.

10. LIABILITIES, CONTINGENCIES AND ASSESSMENTS

A. Contingent Commitments:

At December 31, 2017 and 2016, the Company had commitments to fund investments of \$2.7 million and \$110 thousand, respectively.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

B. Assessments:

1. The Company does not have any net accrued liabilities for guaranty fund and other insurance-related assessments due to its cross-business reinsurance agreement with certain affiliates. At December 31, 2017, the Company reported \$4 thousand in accrued premium tax offsets on a direct basis.

	(in thousands)
2. Assets recognized from paid and accrued premium tax offsets December 31, 2016	\$ 2
Decreases current year:	
Premium tax offset applied	2
Increases current year:	
Premium tax offset accrued	<u>4</u>
Assets recognized from paid and accrued premium tax offsets December 31, 2017	<u>\$ 4</u>

C. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits:

The Company paid \$4.875 million in 2017 on two claims to settle claims related to extra contractual obligations or bad faith claims stemming from lawsuits. This claim count information is disclosed on a per claim direct basis.

D. All Other Contingencies:

In the ordinary course of business, the Company is a defendant or codefendant in various litigation matters.

11. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The Company has unfunded commitments to private equity limited partnerships and real estate partnerships in which it invests. At December 31, 2017 and 2016, the off-balance-sheet risk of these financial instruments was \$2.7 million and \$110 thousand, respectively.

12. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

The Company engages in securities lending activities from which it generates net investment income from the lending of 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. 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 to U.S. Treasury securities and U.S. Treasury repurchase agreements. These securities typically have a duration of 1 day. At December 31, 2017 and 2016, the Company had fixed maturity investments on loan with fair values totaling \$20.0 million and \$6.7 million, respectively.

13. REINSURANCE

- A. The Company participates in reinsurance in order to limit losses, minimize exposure to large risks, provide additional capacity for future growth and to effect affiliate business-sharing arrangements. The Company remains primarily liable as the direct insurer on all risks reinsured.

Bond business is isolated through the Company's participation in a cross-business reinsurance agreement with certain other property-casualty insurance subsidiaries of TRV. Under the terms of this agreement, all non-Bond business written by the Company is reinsured through the TRV Pool, and Bond business written by certain TRV Pool participants is reinsured through the Company.

In addition, the Company cedes surety business under the following two affiliated excess reinsurance agreements:

The Company is a party to a Per Bond Excess Reinsurance Agreement with certain other property-casualty insurance subsidiaries of TRV. Under the terms of this agreement, the Company reinsures business classified as surety, written or assumed during the term of this agreement, for losses in excess of the Company's single risk limitation authorized by the U.S. Treasury on a per bond basis.

Also, the Company is a party to a Per Principal Excess Reinsurance Agreement with certain other property-casualty insurance subsidiaries of TRV. Under the terms of this agreement the Company reinsures business classified as surety, written or assumed during the term of this agreement, for losses in excess of the Company's single risk limitation authorized by the U.S. Treasury, under all bonds written for each principal.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

B. Unsecured Reinsurance Recoverables:

Affiliated Company Recoverables:

The Company had \$1.35 billion of unsecured aggregate recoverables for ceded losses, LAE and unearned premiums, that exceeded 3% of its policyholders' surplus, recoverable from Indemnity at December 31, 2017.

C. Reinsurance Assumed and Ceded at December 31, 2017 (in millions):

	<u>Assumed</u>		<u>Ceded</u>		<u>Net</u>	
	<u>Premium</u>	<u>Commission</u>	<u>Premium</u>	<u>Commission</u>	<u>Premium</u>	<u>Commission</u>
(in millions)	<u>Reserve</u>	<u>Equity</u>	<u>Reserve</u>	<u>Equity</u>	<u>Reserve</u>	<u>Equity</u>
Affiliates	\$ 66.5	\$ 8.0	\$ 305.2	\$ 36.6	\$ (238.7)	\$ (28.6)
All Other	4.1	0.5	40.4	4.9	(36.3)	(4.4)
Total	<u>\$ 70.6</u>	<u>\$ 8.5</u>	<u>\$ 345.6</u>	<u>\$ 41.5</u>	<u>\$ (275.0)</u>	<u>\$ (33.0)</u>

Direct Unearned Premium Reserve \$ 1,195.4

2. Accruals for contingent commissions, net of reinsurance assumed and ceded, amounted to \$5.5 million at December 31, 2017:

(in millions)	
Direct Business	\$ 5.5
Add: Reinsurance Assumed	0.2
Less: Reinsurance Ceded	<u>0.2</u>
Net	<u>\$ 5.5</u>

D. Retroactive Reinsurance (in millions):

	<u>Assumed</u>
a. Reserves Transferred:	
(1) Initial Reserves	\$ 71.6
(2) Adjustments - Prior Year(s)	(41.3)
(3) Adjustments - Current Year	(0.3)
(4) Current Total	<u>\$ 30.0</u>
b. Consideration Paid or Received:	
(1) Initial Consideration	\$ 71.6
(2) Adjustments - Prior Year(s)	10.9
(3) Adjustments - Current Year	-
(4) Current Total	<u>\$ 82.5</u>
c. Paid Losses Reimbursed or Recovered:	
(1) Prior Year(s)	\$ 29.3
(2) Current Year	(0.1)
(3) Current Total	<u>\$ 29.2</u>
d. Special Surplus From Retroactive Reinsurance	
(1) Initial Surplus Gain or Loss	\$ -
(2) Adjustments - Prior Year(s)	52.2
(3) Adjustments - Current Year	0.3
(4) Current Year Restricted Surplus	<u>7.5</u>
(5) Cumulative Total Transferred to Unassigned Funds	<u>\$ 45.0</u>
e. Other insurer included in the above transactions:	
<u>Company</u>	<u>Assumed</u>
Reliance Insurance Company (24457)	\$ 30.0

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

NOTES TO FINANCIAL STATEMENTS (statutory basis)

14. LOSSES AND LOSS ADJUSTMENT EXPENSES

A. The table below is a reconciliation of beginning and ending reserve balances for losses and LAE for the years ended December 31, 2017 and 2016.

(in millions)	<u>2017</u>	<u>2016</u>
Losses and LAE at beginning of year	\$ 982	\$ 1,015
Provision for losses and LAE for claims arising in:		
Current year	540	498
Prior years	<u>(126)</u>	<u>(212)</u>
Total incurred	<u>414</u>	<u>286</u>
Losses and LAE payments for claims arising in:		
Current year	119	92
Prior years	<u>275</u>	<u>227</u>
Total payments	<u>394</u>	<u>319</u>
Losses and LAE at end of year	<u>\$ 1,002</u>	<u>\$ 982</u>

The Company's unpaid losses are reported net of anticipated salvage and subrogation of \$111.8 million and \$109.7 million at December 31, 2017 and 2016, respectively.

B. Changes in Incurred Losses and LAE:

In 2017, the prior year-end total loss and LAE reserves developed favorably by \$126.1 million, resulting primarily from better than expected loss and defense and cost containment development in the other liability – claims-made line for accident years 2013 through 2016 and the fidelity & surety line for accident years 2014 and 2015. The remaining changes are generally the result of ongoing analyses of recent loss data and trends. There are no material additional premiums or return premiums as a result of these prior year effects.

15. STRUCTURED SETTLEMENTS

The Company has purchased annuities from life insurance companies, under which the claimant is the payee and the Company is contingently liable as the owner of the annuity contract, to fund structured settlements. These annuity contracts are now the direct responsibility of the life insurance companies from whom they have been purchased and claims settled by the purchase of such annuity contracts are treated as closed claims. In the event that the life insurance company fails to make the required annuity payments, the Company would be required to make such payments if and to the extent the purchased annuities are not covered by state guaranty associations.

Loss reserves eliminated by the purchase of these annuities totaled \$74 thousand at December 31, 2017.

16. FIXED ASSETS

A. Electronic Data Processing (EDP) Equipment and Software:

TRV capitalizes software and EDP equipment in certain insurance subsidiaries. Operating system software and EDP equipment are admitted provided they are not in excess of limits prescribed by statutory accounting practices. Capitalized nonoperating system software is recorded as a nonadmitted asset. Depreciation of equipment and amortization of operating system software are calculated using the straight-line method over the shorter of its estimated useful life or 3 years. Nonoperating system software is amortized using the straight-line method over the shorter of its estimated useful life or 5 years. Depreciation and amortization are allocated among companies in accordance with normal expense and cost allocation methods. Depreciation and amortization expense related to EDP equipment and software allocable to the Company totaled \$5.0 million and \$6.1 million in 2017 and 2016, respectively.

B. Furniture, Fixtures, Equipment and Leasehold Improvements:

Depreciation and amortization are allocated among companies in accordance with normal expense and cost allocation methods. Depreciation of furniture, fixtures and equipment and amortization of leasehold improvements allocable to the Company totaled \$1.7 million in both 2017 and 2016.

17. SUBSEQUENT EVENTS

There were no subsequent events requiring adjustment to the financial statements or disclosure through April 23, 2018, the date the Company's statutory financial statements were available to be issued.

TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities.....	88,737,553	2.3	88,737,553	20,555,872	109,293,425	2.8
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies.....	11,601,389	0.3	11,601,389	0	11,601,389	0.3
1.22 Issued by U.S. government sponsored agencies.....	0	0.0	0	0	0	0.0
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities).....	0	0.0	0	0	0	0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations.....	94,475,168	2.4	94,475,168	0	94,475,168	2.4
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations.....	1,131,537,858	29.3	1,131,537,858	0	1,131,537,858	29.3
1.43 Revenue and assessment obligations.....	783,906,799	20.3	783,906,799	0	783,906,799	20.3
1.44 Industrial development and similar obligations.....	0	0.0	0	0	0	0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA.....	1,488,865	0.0	1,488,865	0	1,488,865	0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....	9,510,330	0.2	9,510,330	0	9,510,330	0.2
1.513 All other.....	8,454,503	0.2	8,454,503	0	8,454,503	0.2
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....	14,572,546	0.4	14,572,546	0	14,572,546	0.4
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-based securities issued or guaranteed by agencies shown in Line 1.521.....	0	0.0	0	0	0	0.0
1.523 All other.....	26,190,501	0.7	26,190,501	0	26,190,501	0.7
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities).....	1,022,570,581	26.5	1,022,570,581	0	1,022,570,581	26.5
2.2 Unaffiliated non-U.S. securities (including Canada).....	179,783,302	4.7	179,783,302	0	179,783,302	4.7
2.3 Affiliated securities.....	0	0.0	0	0	0	0.0
3. Equity interests:						
3.1 Investments in mutual funds.....	0	0.0	0	0	0	0.0
3.2 Preferred stocks:						
3.21 Affiliated.....	0	0.0	0	0	0	0.0
3.22 Unaffiliated.....	0	0.0	0	0	0	0.0
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated.....	0	0.0	0	0	0	0.0
3.32 Unaffiliated.....	0	0.0	0	0	0	0.0
3.4 Other equity securities:						
3.41 Affiliated.....	326,030,613	8.4	326,030,613	0	326,030,613	8.4
3.42 Unaffiliated.....	0	0.0	0	0	0	0.0
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated.....	0	0.0	0	0	0	0.0
3.52 Unaffiliated.....	0	0.0	0	0	0	0.0
4. Mortgage loans:						
4.1 Construction and land development.....	0	0.0	0	0	0	0.0
4.2 Agricultural.....	0	0.0	0	0	0	0.0
4.3 Single family residential properties.....	0	0.0	0	0	0	0.0
4.4 Multifamily residential properties.....	0	0.0	0	0	0	0.0
4.5 Commercial loans.....	0	0.0	0	0	0	0.0
4.6 Mezzanine real estate loans.....	0	0.0	0	0	0	0.0
5. Real estate investments:						
5.1 Property occupied by company.....	0	0.0	0	0	0	0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....	0	0.0	0	0	0	0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....	0	0.0	0	0	0	0.0
6. Contract loans.....	0	0.0	0	0	0	0.0
7. Derivatives.....	0	0.0	0	0	0	0.0
8. Receivables for securities.....	12,736	0.0	12,736	0	12,736	0.0
9. Securities lending (Line 10, Asset Page reinvested collateral).....	20,555,872	0.5	20,555,872	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments.....	137,626,346	3.6	137,626,346	0	137,626,346	3.6
11. Other invested assets.....	2,641,903	0.1	2,641,903	0	2,641,903	0.1
12. Total invested assets.....	3,859,696,866	100.0	3,859,696,866	20,555,872	3,859,696,866	100.0

See accompanying Independent Auditors' Report



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2017

(To be filed by April 1)

Of TRAVELERS CASUALTY AND SURETY COMPANY OF AMERICA

Address (City, State, Zip Code): HARTFORD CT 06183

NAIC Group Code.....3548

NAIC Company Code.....31194

Employer's ID Number.....06-0907370

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$...4,232,760,599

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01	TRAVELERS GLOBAL INC.....	COMMON STOCK.....	\$..326,030,613	.....7.7 %
2.02	TRAVELERS M MKT LIQUIDITY POOL.....	PRIVATE SHORT-TERM INVESTMENT POOL.....	\$..157,399,862	.....3.7 %
2.03	VARIOUS HARVARD UNIVERSITY.....	BOND.....	\$..37,887,182	.....0.9 %
2.04	VARIOUS VIRGINIA ST RES AUTH INFRA REV.....	BOND.....	\$..30,551,024	.....0.7 %
2.05	VARIOUS WASHINGTON ST GO.....	BOND.....	\$..28,999,016	.....0.7 %
2.06	VARIOUS CANYONS UT SD AUTH GO.....	BOND.....	\$..25,350,557	.....0.6 %
2.07	VARIOUS INDIANA ST FIN AUTH REV.....	BOND.....	\$..24,072,945	.....0.6 %
2.08	VARIOUS MN PUB FACS AUTH WTR & POLL REV.....	BOND.....	\$..23,519,744	.....0.6 %
2.09	VARIOUS MECKLENBURG CNTY NC GO.....	BOND.....	\$..23,362,591	.....0.6 %
2.10	VARIOUS PRINCETON UNIVERSITY.....	BOND.....	\$..22,902,491	.....0.5 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	1	2
	<u>Bonds</u>	<u>Preferred Stocks</u>
3.01	NAIC 1.....	\$3,024,935,395 .....71.5 %
3.02	NAIC 2.....	\$..478,150,600 .....11.3 %
3.03	NAIC 3.....	\$..21,438,743 .....0.5 %
3.04	NAIC 4.....	\$..4,141,229 .....0.1 %
3.05	NAIC 5.....	\$..1,563,291 .....0.0 %
3.06	NAIC 6.....	\$.....0 .....0.0 %
3.07	P/RP-1.....	\$.....0 .....0.0 %
3.08	P/RP-2.....	\$.....0 .....0.0 %
3.09	P/RP-3.....	\$.....0 .....0.0 %
3.10	P/RP-4.....	\$.....0 .....0.0 %
3.11	P/RP-5.....	\$.....0 .....0.0 %
3.12	P/RP-6.....	\$.....0 .....0.0 %

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [] No [X]
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.		
4.02	Total admitted assets held in foreign investments	\$..160,125,993 .....3.8 %
4.03	Foreign-currency-denominated investments	\$.....0 .....0.0 %
4.04	Insurance liabilities denominated in that same foreign currency	\$.....0 .....0.0 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	1	2
5.01	Countries designated NAIC 1.....	\$..155,187,117 .....3.7 %
5.02	Countries designated NAIC 2.....	\$..4,938,876 .....0.1 %
5.03	Countries designated NAIC 3 or below.....	\$.....0 .....0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

	1	2
Countries designated NAIC 1:		
6.01	Country 1: UNITED KINGDOM.....	\$..51,629,688 .....1.2 %
6.02	Country 2: NETHERLANDS.....	\$..29,213,853 .....0.7 %
Countries designated NAIC 2:		
6.03	Country 1: MEXICO.....	\$..3,938,876 .....0.1 %
6.04	Country 2: SPAIN.....	\$..1,000,000 .....0.0 %
Countries designated NAIC 3 or below:		
6.05	Country 1:	\$.....0 .....0.0 %
6.06	Country 2:	\$.....0 .....0.0 %

7. Aggregate unhedged foreign currency exposure..... \$.....00.0 %

8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:	1	2	
8.01	Countries designated NAIC 1.....	\$.....0	.....0.0 %	
8.02	Countries designated NAIC 2.....	\$.....0	.....0.0 %	
8.03	Countries designated NAIC 3 or below.....	\$.....0	.....0.0 %	
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:			
	Countries designated NAIC 1:	1	2	
9.01	Country 1:	\$.....0	.....0.0 %	
9.02	Country 2:	\$.....0	.....0.0 %	
	Countries designated NAIC 2:			
9.03	Country 1:	\$.....0	.....0.0 %	
9.04	Country 2:	\$.....0	.....0.0 %	
	Countries designated NAIC 3 or below:			
9.05	Country 1:	\$.....0	.....0.0 %	
9.06	Country 2:	\$.....0	.....0.0 %	
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
	1	2	3	4
	<u>Issuer</u>	<u>NAIC Designation</u>		
10.01	COMPASS GROUP PLC.....	1.....	\$...14,000,000	.....0.3 %
10.02	VICINITY CENTRES RE LTD.....	1.....	\$....7,000,000	.....0.2 %
10.03	VARIOUS RIO TINTO LTD.....	1FE.....	\$....5,920,048	.....0.1 %
10.04	VARIOUS ROYAL DUTCH SHELL PLC.....	1FE.....	\$....5,703,658	.....0.1 %
10.05	VARIOUS GENERAL ELECTRIC CO.....	1FE.....	\$....4,756,326	.....0.1 %
10.06	VARIOUS DEUTSCHE TELEKOM AG.....	2FE.....	\$....3,999,553	.....0.1 %
10.07	VARIOUS SIEMENS AG.....	1FE.....	\$....3,994,811	.....0.1 %
10.08	PERNOD-RICARD SA.....	2FE.....	\$....3,991,767	.....0.1 %
10.09	VARIOUS BHP BILLITON LTD.....	1FE.....	\$....3,661,025	.....0.1 %
10.10	VARIOUS LYONDELLBASELL INDUSTRIES NV.....	2FE.....	\$....3,026,660	.....0.1 %
11.	Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:			
11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
	If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.			
11.02	Total admitted assets held in Canadian Investments.....		\$...19,657,309	.....0.5 %
11.03	Canadian currency-denominated investments.....		\$.....0	.....0.0 %
11.04	Canadian-denominated insurance liabilities.....		\$.....0	.....0.0 %
11.05	Unhedged Canadian currency exposure.....		\$.....0	.....0.0 %
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.			
12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
	If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
	1	2	3	
12.02	Aggregate statement value of investments with contractual sales restrictions.....		\$.....0	.....0.0 %
	Largest three investments with contractual sales restrictions:			
12.03	.....		\$.....0	.....0.0 %
12.04	.....		\$.....0	.....0.0 %
12.05	.....		\$.....0	.....0.0 %
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:			
13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?			Yes [] No [X]
	If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.			
	1	2	3	
	<u>Name of Issuer</u>			
13.02	TRAVELERS GLOBAL INC.....		\$..326,030,613	.....7.7 %
13.03	VARIOUS AFFORDABLE EQUITY PARTNERS.....		\$....2,641,903	.....0.1 %
13.04	.....		\$.....0	.....0.0 %
13.05	.....		\$.....0	.....0.0 %
13.06	.....		\$.....0	.....0.0 %
13.07	.....		\$.....0	.....0.0 %
13.08	.....		\$.....0	.....0.0 %
13.09	.....		\$.....0	.....0.0 %
13.10	.....		\$.....0	.....0.0 %
13.11	.....		\$.....0	.....0.0 %
14.	Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:			
14.01	Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
	If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.			
	1	2	3	
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities.....		\$.....0	.....0.0 %
	Largest three investments held in nonaffiliated, privately placed equities:			
14.03	.....		\$.....0	.....0.0 %
14.04	.....		\$.....0	.....0.0 %
14.05	.....		\$.....0	.....0.0 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:										
15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []										
If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.										
	1					2		3		
15.02	Aggregate statement value of investments held in general partnership interests.....					\$.....0	0.0 %		
	Largest three investments in general partnership interests:									
15.03					\$.....0	0.0 %		
15.04					\$.....0	0.0 %		
15.05					\$.....0	0.0 %		
16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:										
16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []										
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.										
	1					2		3		
	<u>Type (Residential, Commercial, Agricultural)</u>									
16.02					\$.....0	0.0 %		
16.03					\$.....0	0.0 %		
16.04					\$.....0	0.0 %		
16.05					\$.....0	0.0 %		
16.06					\$.....0	0.0 %		
16.07					\$.....0	0.0 %		
16.08					\$.....0	0.0 %		
16.09					\$.....0	0.0 %		
16.10					\$.....0	0.0 %		
16.11					\$.....0	0.0 %		
Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:										
								<u>Loans</u>		
16.12	Construction loans.....					\$.....0	0.0 %		
16.13	Mortgage loans over 90 days past due.....					\$.....0	0.0 %		
16.14	Mortgage loans in the process of foreclosure.....					\$.....0	0.0 %		
16.15	Mortgage loans foreclosed.....					\$.....0	0.0 %		
16.16	Restructured mortgage loans.....					\$.....0	0.0 %		
17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:										
	<u>Loan-to-Value</u>									
		<u>Residential</u>				<u>Commercial</u>			<u>Agricultural</u>	
		1	2	3		4		5	6	
17.01	above 95%.....	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %
17.02	91% to 95%.....	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %
17.03	81% to 90%.....	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %
17.04	71% to 80%.....	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %
17.05	below 70%.....	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %	\$.....0	.....0.0 %
18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:										
18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []										
If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.										
Largest five investments in any one parcel or group of contiguous parcels of real estate:										
	<u>Description</u>					2		3		
18.02					\$.....0	0.0 %		
18.03					\$.....0	0.0 %		
18.04					\$.....0	0.0 %		
18.05					\$.....0	0.0 %		
18.06					\$.....0	0.0 %		
19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.										
19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets? Yes [X] No []										
If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.										
	1					2		3		
19.02	Aggregate statement value of investments held in mezzanine real estate loans					\$.....0	0.0 %		
	Largest three investments held in mezzanine real estate loans:									
19.03					\$.....0	0.0 %		
19.04					\$.....0	0.0 %		
19.05					\$.....0	0.0 %		
20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:										
		<u>At Year-End</u>				<u>At End of Each Quarter</u>				
					1st Qtr	2nd Qtr	3rd Qtr			
		1	2	3	4	5				
20.01	Securities lending agreements (do not include assets held as collateral for such transactions).....	\$20,193,987	.....0.5 %	\$5,396,032	\$4,690,478	\$25,770,543			
20.02	Repurchase agreements.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0			
20.03	Reverse repurchase agreements.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0			
20.04	Dollar repurchase agreements.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0			
20.05	Dollar reverse repurchase agreements.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0			

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging.....	\$.....0	.....0.0 %	\$.....0	.....0.0 %
21.02 Income generation.....	\$.....0	.....0.0 %	\$.....0	.....0.0 %
21.03 Other.....	\$.....0	.....0.0 %	\$.....0	.....0.0 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u> 3	<u>2nd Qtr</u> 4	<u>3rd Qtr</u> 5
22.01 Hedging.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0
22.02 Income generation.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0
22.03 Replications.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0
22.04 Other.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u> 3	<u>2nd Qtr</u> 4	<u>3rd Qtr</u> 5
23.01 Hedging.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0
23.02 Income generation.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0
23.03 Replications.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0
23.04 Other.....	\$.....0	.....0.0 %	\$.....0	\$.....0	\$.....0

PROPERTY AND CASUALTY INTERROGATORIES RELATING TO REINSURANCE

- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes [X] No []
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions. 2
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [X] No []
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - (c) Aggregate stop loss reinsurance coverage;
 - (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity?
- Yes [] No [X]
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract? .
- Yes [] No [X]
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
 - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?
- Yes [] No [X]
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.