TRAVELERS COMPANIES, INC.
Form 10-Q
October 22, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

---

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from to

Commission file number 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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

485 Lexington Avenue

New York, NY 10017

(Address of principal executive offices) (Zip Code)

(917) 778-6000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the Registrant s Common Stock, without par value, outstanding at October 16, 2009 was 546,373,306.

Table of Contents

The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended September 30, 2009

TABLE OF CONTENTS

Table of Contents

PART 1 FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

(in millions, except per share amounts)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues				
Premiums	**$ 5,421**	$ 5,448	**$ 16,075**	$ 16,145
Net investment income	**763**	716	**1,963**	2,309
Fee income	**72**	120	**234**	315
Net realized investment gains (losses)	**29**	(170)	**(172)**	(196)
Other revenues	**42**	31	**124**	99
Total revenues	**6,327**	6,145	**18,224**	18,672
Claims and expenses				
Claims and claim adjustment expenses	**3,123**	3,871	**9,648**	9,984
Amortization of deferred acquisition costs	**967**	990	**2,864**	2,905
General and administrative expenses	**889**	1,001	**2,510**	2,718
Interest expense	**98**	95	**284**	276
Total claims and expenses	**5,077**	5,957	**15,306**	15,883
Income before income taxes	**1,250**	188	**2,918**	2,789
Income tax expense (benefit)	**315**	(26)	**581**	666
Net income	**$ 935**	$ 214	**$ 2,337**	$ 2,123
Net income per share				
Basic	**$ 1.66**	$ 0.36	**$ 4.05**	$ 3.51
Diluted	**$ 1.65**	$ 0.36	**$ 4.02**	$ 3.47
Weighted average number of common shares outstanding				
Basic	**558.4**	586.7	**572.8**	600.0
Diluted	**564.1**	594.7	**577.5**	609.1

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net Realized Investment Gains (Losses)				
Other-than-temporary impairment losses:				

Total losses	**$ (43)**	$ (156)	**$ (302)**	$ (222)
Portion of losses recognized in accumulated other changes in equity from nonowner sources	**24**		**69**	
Other-than-temporary impairment losses	**(19)**	(156)	**(233)**	(222)
Other net realized investment gains (losses)	**48**	(14)	**61**	26
Net realized investment gains (losses)	**$ 29**	$ (170)	**$ (172)**	$ (196)

See notes to consolidated financial statements (unaudited).

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Fixed maturities, available for sale at fair value (including $81 and $8 subject to securities lending) (amortized cost $62,208 and $61,569)	**$ 65,350**	$ 61,275
Equity securities, at fair value (cost $387 and $461)	**435**	379
Real estate	**872**	827
Short-term securities	**6,567**	5,222
Other investments	**2,899**	3,035
Total investments	**76,123**	70,738
Cash	**286**	350
Investment income accrued	**794**	823
Premiums receivable	**5,957**	5,954
Reinsurance recoverables	**13,339**	14,232
Ceded unearned premiums	**1,076**	941
Deferred acquisition costs	**1,825**	1,774
Deferred tax asset	**603**	1,965
Contractholder receivables	**6,457**	6,350
Goodwill	**3,365**	3,366
Other intangible assets	**612**	688
Other assets	**2,180**	2,570
Total assets	**$ 112,617**	$ 109,751
Liabilities		
Claims and claim adjustment expense reserves	**$ 53,924**	$ 54,723
Unearned premium reserves	**11,209**	10,957
Contractholder payables	**6,457**	6,350
Payables for reinsurance premiums	**687**	528
Debt	**6,528**	6,181
Other liabilities	**5,652**	5,693
Total liabilities	**84,457**	84,432
Shareholders equity		
Preferred Stock Savings Plan convertible preferred stock (0.2 and 0.3 shares issued and outstanding)	**81**	89
Common stock (1,750.0 shares authorized; 547.9 and 585.1 shares issued and outstanding)	**19,433**	19,242
Retained earnings	**15,208**	13,314
Accumulated other changes in equity from nonowner sources	**1,657**	(900)
Treasury stock, at cost (169.1 and 128.8 shares)	**(8,219)**	(6,426)
Total shareholders equity	**28,160**	25,319
Total liabilities and shareholders equity	**$ 112,617**	$ 109,751

See notes to consolidated financial statements (unaudited).

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the nine months ended September 30,	2009	2008
Convertible preferred stock savings plan		
Balance, beginning of year	**$ 89**	$ 112
Redemptions during period	**(8)**	(20)
Balance, end of period	**81**	92
Common stock		
Balance, beginning of year	**19,242**	18,990
Employee share-based compensation	**94**	96
Compensation amortization under share-based plans and other changes	**97**	110
Balance, end of period	**19,433**	19,196
Retained earnings		
Balance, beginning of year	**13,314**	11,110
Cumulative effect of adoption of ASC 320 at April 1, 2009 (see note 1)	**71**	
Net income	**2,337**	2,123
Dividends	**(521)**	(538)
Other	**7**	(5)
Balance, end of period	**15,208**	12,690
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	**(900)**	670
Cumulative effect of adoption of ASC 320 at April 1, 2009 (see note 1)	**(71)**	
Change in net unrealized gain (loss) on investments:		
Having no credit losses recognized in the consolidated statement of income	**2,348**	(1,438)
Having credit losses recognized in the consolidated statement of income	**103**	
Net change in unrealized foreign currency translation and other changes	**177**	(164)
Balance, end of period	**1,657**	(932)
Treasury stock (at cost)		
Balance, beginning of year	**(6,426)**	(4,266)
Treasury shares acquired share repurchase authorization	**(1,750)**	(2,022)
Net shares acquired related to employee share-based compensation plans	**(43)**	(37)
Balance, end of period	**(8,219)**	(6,325)
Total common shareholders equity	**28,079**	24,629
Total shareholders equity	**$ 28,160**	$ 24,721
Common shares outstanding		
Balance, beginning of year	**585.1**	627.8
Shares acquired share repurchase authorization	**(39.3)**	(42.3)
Net shares issued under employee share-based compensation plans	**2.1**	1.7
Balance, end of period	**547.9**	587.2
Summary of changes in equity from nonowner sources		
Net income	**$ 2,337**	$ 2,123
Other changes in equity from nonowner sources, net of tax	**2,628**	(1,602)
Total changes in equity from nonowner sources	**$ 4,965**	$ 521

See notes to consolidated financial statements (unaudited).

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

For the nine months ended September 30,	2009	2008
Cash flows from operating activities		
Net income	**$ 2,337**	$ 2,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment losses	**172**	196
Depreciation and amortization	**602**	627
Deferred federal income tax expense	**46**	49
Amortization of deferred acquisition costs	**2,864**	2,905
Equity in loss from other investments	**211**	34
Premiums receivable	**(3)**	(47)
Reinsurance recoverables	**893**	533
Deferred acquisition costs	**(2,915)**	(2,950)
Claims and claim adjustment expense reserves	**(799)**	(673)
Unearned premium reserves	**252**	150
Other	**(456)**	(374)
Net cash provided by operating activities	**3,204**	2,573
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**3,769**	3,670
Proceeds from sales of investments:		
Fixed maturities	**2,206**	3,588
Equity securities	**37**	47
Real estate		25
Other investments	**217**	547
Purchases of investments:		
Fixed maturities	**(6,350)**	(6,635)
Equity securities	**(22)**	(89)
Real estate	**(12)**	(31)
Other investments	**(262)**	(527)
Net (purchases) sales of short-term securities	**(1,345)**	60
Securities transactions in course of settlement	**588**	(387)
Other	**(271)**	(267)
Net cash provided by (used in) investing activities	**(1,445)**	1
Cash flows from financing activities		
Payment of debt	**(143)**	(403)
Issuance of debt	**494**	496
Dividends paid to shareholders	**(518)**	(536)
Issuance of common stock employee share options	**76**	72
Treasury stock acquired share repurchase authorization	**(1,720)**	(2,055)
Treasury stock acquired net employee share-based compensation	**(29)**	(28)
Excess tax benefits from share-based payment arrangements	**4**	8
Net cash used in financing activities	**(1,836)**	(2,446)
Effect of exchange rate changes on cash	**13**	(12)
Net increase (decrease) in cash	**(64)**	116
Cash at beginning of period	**350**	271
Cash at end of period	**$ 286**	$ 387

Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**573**	$	832
Interest paid	**$**	**248**	$	248

See notes to consolidated financial statements (unaudited).

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company s management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. Certain reclassifications have been made to the 2008 financial statements and notes to conform to the 2009 presentation. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s 2008 Annual Report on Form 10-K.

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

Adoption of New Accounting Standards

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (The Codification). The Codification reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The Codification supersedes all existing U.S. accounting standards; all other accounting literature not included in the Codification (other than Securities and Exchange Commission guidance for publicly-traded companies) is considered non-authoritative. The Codification was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Company s references to U.S. GAAP accounting standards but did not impact the Company s results of operations, financial position or liquidity.

Other-Than-Temporary Impairments

In April 2009, the FASB issued new guidance for the accounting for other-than-temporary impairments. Under the new guidance, which is now part of Accounting Standards Codification (ASC) 320, *Investments Debt and Equity Securities* (ASC 320), an other-than-temporary impairment is recognized when an entity has the intent to sell a debt security or when it is more likely than not that an entity will be required to sell the debt security before its anticipated recovery in value.

Additionally, the new guidance changes the presentation and amount of other-than-temporary impairment losses recognized in the income statement for instances in which the Company does not intend to sell a debt security, or it is more likely than not that the Company will not be required to sell a debt security prior to the anticipated recovery of its remaining cost basis. The Company separates the credit loss component of the impairment from the amount related to all other factors and reports the credit loss component in net realized investment gains (losses). The impairment related to all other factors is reported in accumulated other changes in equity from nonowner sources.

In addition to the changes in measurement and presentation, the disclosures related to other-than-temporary impairments relating to debt securities are expanded, and all such disclosures are required to be included in both interim and annual periods.

The provisions of the new guidance were effective for interim periods ending after June 15, 2009. The adoption of the new guidance on April 1, 2009 resulted in an increase in retained earnings of $71 million, which was offset by a corresponding decrease in accumulated other changes in equity from nonowner sources of the same amount.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

As a result of adopting the new guidance, the amount of net investment income, net realized investment losses from impairment charges, and net income reported for the three months ended September 30, 2009 was different than the amounts that would have been reported under the previous accounting guidance. The new guidance resulted in less net realized investment losses and a corresponding increase in net income of approximately $29 million after-tax ($45 million pre-tax) or $0.05 per share (basic and diluted). This increase was offset by a slight decrease in net investment income and, accordingly, net income, of less than $0.01 per share (basic and diluted). That decline was caused by a decrease in the accretion of the non-credit loss component of impaired securities to the Company's projection of expected value for the three months ended September 30, 2009.

Additional Fair Value Measurement Guidance

In April 2009, the FASB issued new guidance for determining when a transaction is not orderly and for estimating fair value when there has been a significant decrease in the volume and level of activity for an asset or liability. The new guidance, which is now part of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), requires disclosure of the inputs and valuation techniques used, as well as any changes in valuation techniques and inputs used during the period, to measure fair value in interim and annual periods. In addition, the presentation of the fair value hierarchy is required to be presented by major security type as described in ASC 320.

The provisions of the new guidance were effective for interim periods ending after June 15, 2009. The adoption of the new guidance on April 1, 2009 did not have a material effect on the Company s results of operations, financial position or liquidity.

Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued new guidance related to the disclosure of the fair value of financial instruments. The new guidance, which is now part of ASC 825, *Financial Instruments*, requires disclosure of the fair value of financial instruments whenever a publicly traded company issues financial information in interim reporting periods in addition to the annual disclosure required at year-end. The provisions of the new guidance were effective for interim periods ending after June 15, 2009. The Company adopted the new guidance effective April 1, 2009. See note 4.

Recognized and Non-Recognized Subsequent Events

In May 2009, the FASB issued new guidance for accounting for subsequent events. The new guidance, which is now part of ASC 855, *Subsequent Events*, is consistent with existing auditing standards in defining subsequent events as events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued, but it also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The new guidance defines two types of subsequent events: recognized subsequent events and non-recognized subsequent events. Recognized subsequent events provide additional evidence about conditions that existed at the balance sheet date and must be reflected in the company s financial statements. Non-recognized subsequent events provide evidence about conditions that arose after the balance sheet date and are not reflected in the financial statements of a company. Certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. The new guidance was effective on a prospective basis for interim or annual periods ending after June 15, 2009. The adoption of the new guidance on April 1, 2009 had no effect on the Company s results of operations, financial position or liquidity. See note 13.

Business Combinations

In December 2007, the FASB issued revised guidance for the accounting for business combinations. The revised guidance, which is now part of ASC 805, *Business Combinations* (ASC 805), requires the fair value measurement of assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, at the acquisition date with limited exceptions. Previously, a cost allocation approach was used to allocate the cost of the acquisition based on the estimated fair value of the individual assets acquired and liabilities assumed. The cost allocation approach treated acquisition-related costs and restructuring costs that the acquirer expected to incur as a liability on the acquisition date, as part of the cost of the acquisition. Under the revised guidance, those costs are recognized in the consolidated statement of income separately from the business combination. In addition, the revised guidance includes recognition, classification and measurement guidance for assets and liabilities related to insurance and reinsurance contracts acquired in a business combination. The revised guidance applies to business combinations for acquisitions occurring on or after January 1, 2009. Accordingly, the revised guidance did not impact the Company s previous transactions involving purchase accounting.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

In April 2009, the FASB issued revised guidance for recognizing and measuring pre-acquisition contingencies in a business combination. Under the revised guidance, which is now part of ASC 805, pre-acquisition contingencies are recognized at their acquisition-date fair value if a fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined during the measurement period, a contingency (best estimate) is to be recognized if it is probable that an asset existed or liability had been incurred at the acquisition date and the amount can be reasonably estimated. The revised guidance does not prescribe specific accounting for subsequent measurement and accounting for contingencies.

The adoption of the revised guidance on January 1, 2009 had no effect on the Company s results of operations, financial position or liquidity.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued new guidance for the accounting for noncontrolling interests. The new guidance, which is now a part of ASC 810, *Consolidation*, establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. In addition, it clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements.

The provisions of the new guidance were effective on a prospective basis beginning January 1, 2009, except for the presentation and disclosure requirements which are applied on a retrospective basis for all periods presented. The adoption of the new guidance on January 1, 2009 did not have a material effect on the Company s results of operations, financial position or liquidity.

Fair Value Measurements

In February 2008, the FASB issued new guidance for the accounting for non-financial assets and non-financial liabilities. The new guidance, which is now a part of ASC 820, permitted a one-year deferral of the application of fair value accounting for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The adoption of the new guidance on January 1, 2009, for non-financial assets and non-financial liabilities, did not have a material effect on the Company s results of operations, financial position or liquidity.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued new guidance on the disclosure of derivative instruments and hedging activities. The new guidance, which is now a part of ASC 815, *Derivatives and Hedging Activities,* requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of, and gains and losses on, derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The provisions of the new guidance were effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of the new guidance on January 1, 2009 did not result in a change in the Company s disclosure since the amount of derivatives held by the Company is not material.

Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued revised guidance on determining the useful life of intangible assets. The revised guidance, which is now a part of ASC 350, *Intangibles Goodwill and Other,* amends the factors that an entity should consider in determining the useful life of a recognized intangible asset to include the entity s historical experience in renewing or extending similar arrangements, whether or not the arrangements have explicit renewal or extension provisions. Previously, an entity was precluded from using its own assumptions about renewal or extension of an arrangement where there was likely to be substantial cost or modifications. Entities without their own historical experience should consider the assumptions market participants would use about renewal or extension. The revised guidance may result in the useful life of an entity s intangible asset differing from the period of expected cash flows that was used to measure the fair value of the underlying

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

asset using the market participant s perceived value. Disclosure to provide information on an entity s intent and/or ability to renew or extend the arrangement is also required.

The revised guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008 and for interim periods within those fiscal years. The adoption of the revised guidance on January 1, 2009 did not have a material effect on the Company s results of operations, financial position or liquidity and did not require additional disclosures related to existing intangible assets.

Participating Securities Granted in Share-Based Payment Transactions

In June 2008, the FASB issued new guidance on determining whether instruments granted in share-based payment transactions are participating securities. The new guidance, which is now part of ASC 260, *Earnings per Share*, addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the earnings allocation in computing earnings per share (EPS) under the two-class method. Under the new guidance, participating securities are redefined to include unvested share-based payment awards that contain non-forfeitable dividends or dividend equivalents as participating securities to be included in the computation of EPS pursuant to the two-class method. Outstanding unvested restricted stock and deferred stock units issued under employee compensation programs containing such dividend participation features are considered participating securities subject to the two-class method in computing EPS rather than the treasury stock method.

The new guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008 and for interim periods within those years. In accordance with the provisions of the new guidance, all prior-period basic and diluted EPS data presented were restated to reflect the retrospective application of its computational guidance. The adoption of the new guidance on January 1, 2009 did not have a material effect on the Company s basic or diluted EPS. See note 9.

Accounting Standards Not Yet Adopted

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued new guidance on the accounting for the transfers of financial assets. The new guidance, which was issued as Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140*, has not yet been adopted into Codification. The new guidance requires additional disclosures for transfers of financial assets, including securitization transactions, and any continuing exposure to the risks related to transferred financial assets. There is no longer a concept of a qualifying special-purpose entity, and the requirements for derecognizing financial assets have changed. The new guidance is effective on a prospective basis for the annual period beginning after November 15, 2009 and interim and annual periods thereafter. The Company does not expect that the provisions of the new guidance will have a material effect on its results of operations, financial position or liquidity.

Amendments to Accounting for Variable Interest Entities

In June 2009, the FASB issued revised guidance on the accounting for variable interest entities. The revised guidance, which was issued as Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)*, has not yet been adopted into Codification. The revised guidance reflects the elimination of the concept of a qualifying special-purpose entity and replaces the quantitative-based risks and rewards calculation of the previous guidance for determining which company, if any, has a controlling financial interest in a variable interest entity. The revised guidance requires an analysis of whether a company has: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb the losses that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. An entity is required to be re-evaluated as a variable interest entity when the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights to direct the activities that most significantly impact the entity s economic performance. Additional disclosures are required about a company s involvement in variable interest entities and an ongoing assessment of whether a company is the primary beneficiary.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

The revised guidance is effective for all variable interest entities owned on or formed after January 1, 2010. The Company does not expect that the provisions of the revised guidance will have a material effect on its results of operations, financial position or liquidity.

Employers Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued new guidance on the disclosure of postretirement benefit plan assets. The new guidance, which is now part of ASC 715, *Compensation Retirement Benefits,* requires an employer to provide certain disclosures about plan assets of its defined benefit pension or other postretirement plans. The required disclosures include the investment policies and strategies of the plans, the fair value of the major categories of plan assets, the inputs and valuation techniques used to develop fair value measurements and a description of significant concentrations of risk in plan assets. The new guidance is effective on a prospective basis for fiscal years ending after December 15, 2009.

Fair Value Measurement of Liabilities

In August 2009, the FASB issued new guidance for the accounting for the fair value measurement of liabilities. The new guidance, which is now part of ASC 820, provides clarification that in certain circumstances in which a quoted price in an active market for the identical liability is not available, a company is required to measure fair value using one or more of the following valuation techniques: the quoted price of the identical liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, and/or another valuation technique that is consistent with the principles of fair value measurements. The new guidance clarifies that a company is not required to include an adjustment for restrictions that prevent the transfer of the liability and if an adjustment is applied to the quoted price used in a valuation technique, the result is a Level 2 or 3 fair value measurement. The new guidance is effective for interim and annual periods beginning after August 27, 2009. The Company does not expect that the provisions of the new guidance will have a material effect on its results of operations, financial position or liquidity.

Nature of Operations

The Company is organized into three reportable business segments: Business Insurance; Financial, Professional & International Insurance; and Personal Insurance. These segments reflect the manner in which the Company s businesses are currently managed and represent an aggregation of products and services based on type of customer, how the business is marketed and the manner in which risks are underwritten. The specific business segments are as follows:

Business Insurance

The Business Insurance segment offers a broad array of property and casualty insurance and insurance-related services to its clients primarily in the United States. Business Insurance is organized into the following six groups, which collectively comprise Business Insurance Core operations: Select Accounts, Commercial Accounts, National Accounts, Industry-Focused Underwriting, Target Risk Underwriting and Specialized Distribution.

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

Financial, Professional & International Insurance

The Financial, Professional & International Insurance segment includes surety and financial liability coverages, which require a primarily credit-based underwriting process, as well as property and casualty products that are primarily marketed on a domestic basis in the United Kingdom, the Republic of Ireland and Canada, and on an international basis through Lloyd s. The segment includes the Bond & Financial Products group as well as the International group.

In the second quarter of 2009, results from the Company s surety bond operation in Canada were reclassified from the Bond & Financial Products group to the International group to reflect the manner in which this operation is now managed. All prior period amounts have been restated to reflect this reclassification between groups within the segment. The reclassification had no impact on previously reported results for the Financial, Professional & International Insurance segment in total for any prior reporting periods.

Personal Insurance

The Personal Insurance segment writes virtually all types of property and casualty insurance covering personal risks. The primary coverages in Personal Insurance are automobile and homeowners insurance sold to individuals.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION

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

(for the three months ended September 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2009				
Premiums	**$ 2,768**	**$ 861**	**$ 1,792**	**$ 5,421**
Net investment income	**529**	**118**	**116**	**763**
Fee income	**72**			**72**
Other revenues	**14**	**7**	**20**	**41**
Total operating revenues (1)	**$ 3,383**	**$ 986**	**$ 1,928**	**$ 6,297**
Operating income (1)	**$ 668**	**$ 167**	**$ 149**	**$ 984**
2008				
Premiums	$ 2,823	$ 863	$ 1,762	$ 5,448
Net investment income	494	114	108	716
Fee income	120			120
Other revenues	8	5	18	31
Total operating revenues (1)	$ 3,445	$ 982	$ 1,888	$ 6,315
Operating income (loss) (1)	$ 378	$ 83	$ (64)	$ 397

(for the nine months ended September 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2009				
Premiums	**$ 8,295**	**$ 2,472**	**$ 5,308**	**$ 16,075**
Net investment income	**1,335**	**329**	**299**	**1,963**
Fee income	**234**			**234**
Other revenues	**32**	**20**	**62**	**114**
Total operating revenues (1)	**$ 9,896**	**$ 2,821**	**$ 5,669**	**$ 18,386**
Operating income (1)	**$ 1,775**	**$ 448**	**$ 391**	**$ 2,614**
2008				
Premiums	$ 8,390	$ 2,562	$ 5,193	$ 16,145
Net investment income	1,607	356	346	2,309
Fee income	315			315
Other revenues	21	18	58	97
Total operating revenues (1)	$ 10,333	$ 2,936	$ 5,597	$ 18,866

Operating income (1)	$ 1,719	$ 495	$ 239	$ 2,453

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenue reconciliation				
Earned premiums				
Business Insurance:				
Commercial multi-peril	**$ 726**	$ 750	**$ 2,171**	$ 2,254
Workers compensation	**627**	607	**1,883**	1,776
Commercial automobile	**504**	496	**1,473**	1,482
Property	**447**	468	**1,339**	1,414
General liability	**463**	499	**1,429**	1,457
Other	**1**	3		7
Total Business Insurance	**2,768**	2,823	**8,295**	8,390
Financial, Professional & International Insurance:				
General liability	**235**	226	**696**	676
Fidelity and surety	**257**	273	**757**	792
International	**335**	329	**920**	995
Other	**34**	35	**99**	99
Total Financial, Professional & International Insurance	**861**	863	**2,472**	2,562
Personal Insurance:				
Automobile	**925**	937	**2,768**	2,767
Homeowners and other	**867**	825	**2,540**	2,426
Total Personal Insurance	**1,792**	1,762	**5,308**	5,193
Total earned premiums	**5,421**	5,448	**16,075**	16,145
Net investment income	**763**	716	**1,963**	2,309
Fee income	**72**	120	**234**	315
Other revenues	**41**	31	**114**	97
Total operating revenues for reportable segments	**6,297**	6,315	**18,386**	18,866
Other revenues	**1**		**10**	2
Net realized investment gains (losses)	**29**	(170)	**(172)**	(196)
Total consolidated revenues	**$ 6,327**	$ 6,145	**$ 18,224**	$ 18,672

Income reconciliation, net of tax				
Total operating income for reportable segments	**$ 984**	$ 397	**$ 2,614**	$ 2,453
Interest Expense and Other (1)	**(70)**	(67)	**(169)**	(197)
Total operating income	**914**	330	**2,445**	2,256
Net realized investment gains (losses)	**21**	(116)	**(108)**	(133)
Total consolidated net income	**$ 935**	$ 214	**$ 2,337**	$ 2,123

(1) The primary component of Interest Expense and Other is after-tax interest expense of $64 million and $61 million for the three months ended September 30, 2009 and 2008, respectively, and $185 million and $178 million for the nine months ended September 30, 2009 and 2008, respectively. The total for the nine months ended September 30, 2009 included a benefit of $28 million from the favorable resolution of various prior year federal and state tax matters.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)	September 30, 2009	December 31, 2008
Asset reconciliation:		
Business Insurance	**$ 83,929**	$ 82,622
Financial, Professional & International Insurance	**14,464**	13,356
Personal Insurance	**13,578**	13,151
Total assets for reportable segments	**111,971**	109,129
Other assets (1)	**646**	622
Total consolidated assets	**$ 112,617**	$ 109,751

(1) The primary components of other assets at both dates were other intangible assets and deferred taxes.

3. INVESTMENTS

Fixed Maturities

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

(at September 30, 2009, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	**$ 1,544**	**$ 106**	**$**	**$ 1,650**
Obligations of states, municipalities and political subdivisions	**39,281**	**2,471**	**20**	**41,732**
Debt securities issued by foreign governments	**1,820**	**58**	**2**	**1,876**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**5,407**	**219**	**198**	**5,428**
All other corporate bonds	**14,108**	**654**	**146**	**14,616**
Redeemable preferred stock	**48**	**1**	**1**	**48**
Total	**$ 62,208**	**$ 3,509**	**$ 367**	**$ 65,350**

(at December 31, 2008, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 1,681	$ 160	$	$ 1,841
Obligations of states, municipalities and political subdivisions	38,598	920	456	39,062
Debt securities issued by foreign governments	1,453	67	1	1,519
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	6,266	157	364	6,059
All other corporate bonds	13,498	121	882	12,737
Redeemable preferred stock	73	1	17	57
Total	$ 61,569	$ 1,426	$ 1,720	$ 61,275

Equity Securities

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

(at September 30, 2009, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	**$ 172**	**$ 30**	**$ 8**	**$ 194**
Non-redeemable preferred stock	**215**	**43**	**17**	**241**
Total	**$ 387**	**$ 73**	**$ 25**	**$ 435**

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at December 31, 2008, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 189	$ 2	$ 31	$ 160
Non-redeemable preferred stock	272	7	60	219
Total	$ 461	$ 9	$ 91	$ 379

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at September 30, 2009 and December 31, 2008, the aggregate fair value and gross unrealized losses by length of time those securities have been continuously in an unrealized loss position.

	Less than 12 months		12 months or longer (1)		Total	
(at September 30, 2009, in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities (2)	**$ 104**	**$**	**$**	**$**	**$ 104**	**$**
Obligations of states, municipalities and political subdivisions	**334**	**5**	**291**	**15**	**625**	**20**
Debt securities issued by foreign governments	**157**	**2**			**157**	**2**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**109**	**3**	**1,300**	**195**	**1,409**	**198**
All other corporate bonds	**419**	**19**	**1,670**	**127**	**2,089**	**146**
Redeemable preferred stock	**7**	**1**	**4**		**11**	**1**
Total fixed maturities	**1,130**	**30**	**3,265**	**337**	**4,395**	**367**
Equity securities						
Common stock	**59**	**4**	**29**	**4**	**88**	**8**
Non-redeemable preferred stock	**33**	**3**	**80**	**14**	**113**	**17**
Total equity securities	**92**	**7**	**109**	**18**	**201**	**25**
Total	**$ 1,222**	**$ 37**	**$ 3,374**	**$ 355**	**$ 4,596**	**$ 392**

(1) Included in the fair value and gross unrealized losses are $423 million and $69 million, respectively, related to fixed maturity investments having a credit loss recognized in net realized investment gains (losses) as a result of applying the new other-than-temporary impairment guidance effective April 1, 2009. See note 1.

(2) Gross unrealized losses in this category were minimal.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at December 31, 2008, in millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$	$	$	$	$	$
Obligations of states, municipalities and political subdivisions	11,508	340	1,812	116	13,320	456
Debt securities issued by foreign governments	7	1			7	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1,660	310	551	54	2,211	364
All other corporate bonds	5,734	510	2,112	372	7,846	882
Redeemable preferred stock	24	11	19	6	43	17
Total fixed maturities	18,933	1,172	4,494	548	23,427	1,720
Equity securities						
Common stock	93	25	12	6	105	31
Non-redeemable preferred stock	83	28	69	32	152	60
Total equity securities	176	53	81	38	257	91
Total	$ 19,109	$ 1,225	$ 4,575	$ 586	$ 23,684	$ 1,811

Investment Impairments

The Company conducts a periodic review to identify and evaluate invested assets having other-than-temporary impairments. Some of the factors considered in identifying other-than-temporary impairments include: (1) for fixed maturity investments, whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value; (2) for non-fixed maturity investments, the Company s ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; (3) the likelihood of the recoverability of principal and interest for fixed maturity securities (i.e., whether there is a credit loss) or cost for equity securities; (4) the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities or cost for equity securities; and (5) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Reporting of Other-Than-Temporary Impairments

For fixed maturity investments that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment from the amount related to all other factors and reports the credit loss component in net realized investment gains (losses). The impairment related to all other factors is reported in accumulated other changes in equity from nonowner sources.

For non-fixed maturity investments and fixed maturity investments the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount of the impairment is included in net realized investment gains (losses).

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Upon recognizing an other-than-temporary impairment, the new cost basis of the investment is the previous amortized cost basis less the other-than-temporary impairment recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value; however, for fixed maturity investments the difference between the new cost basis and the expected cash flows is accreted on a quarterly basis to net investment income over the remaining expected life of the investment.

Determination of Credit Loss

The Company determines the credit loss component of fixed maturity investments by utilizing discounted cash flow modeling to determine the present value of the security and comparing the present value with the amortized cost of the security. If the amortized cost is greater than the present value of the expected cash flows, the difference is considered a credit loss and recognized in net realized investment gains (losses).

For non-structured fixed maturities (U.S. Treasury securities, obligations of U.S. Government and government agencies and authorities, obligations of states, municipalities and political subdivisions, debt securities issued by foreign governments, and certain corporate debt), the estimate of expected cash flows is determined by projecting a recovery value and a recovery time frame and assessing whether further principal and interest will be received. The determination of recovery value incorporates an issuer valuation assumption utilizing one or a combination of valuation methods as deemed appropriate by the Company. The Company determines the undiscounted recovery value by allocating the estimated value of the issuer to the Company s assessment of the priority of claims. The present value of the cash flows is determined by applying the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment) and an estimated recovery time frame. Generally, that time frame for securities for which the issuer is in bankruptcy is 12 months. For securities for which the issuer is financially troubled but not in bankruptcy, that time frame is generally 24 months. Included in the present value calculation are expected principal and interest payments; however, for securities for which the issuer is classified as bankrupt or in default, the present value calculation assumes no interest payments and a single recovery amount.

In estimating the recovery value, significant judgment is involved in the development of assumptions relating to a myriad of factors related to the issuer including, but not limited to, revenue, margin and earnings projections, the likely market or liquidation values of assets, potential additional debt to be incurred pre- or post-bankruptcy/restructuring, the ability to shift existing or new debt to different priority layers, the amount of restructuring/bankruptcy expenses, the size and priority of unfunded pension obligations, litigation or other contingent claims, the treatment of intercompany claims and the likely outcome with respect to inter-creditor conflicts.

For structured fixed maturity securities (primarily residential and commercial mortgage-backed securities, collateralized mortgage obligations and pass-through securities), the Company estimates the present value of the security by projecting future cash flows of the assets underlying the securitization, allocating the flows to the various tranches based on the structure of the securitization, and determining the present value of the cash flows using the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment or changes in expected cash flows). The Company incorporates levels of delinquencies, defaults and severities as well as credit attributes of the remaining assets in the securitization, along with other economic data, to arrive at its best estimate of the parameters applied to the assets underlying the securitization. In order to project cash flows, the following assumptions are applied to the assets underlying the securitization: (1) voluntary prepayment rates, (2) default rates, and (3) recovery rates given a default. The key assumptions made for the Prime, Alt-A and Sub-Prime mortgage-backed securities at September 30, 2009 were as follows:

(at September 30, 2009)	**Prime**	**Alt-A**	**Sub-Prime**
Prepayments	5% - 29%	3% - 10%	2% - 10%
Percentage of remaining pool liquidated due to defaults	2.2% - 49.2%	16.2% - 60.6%	30.9% - 94.0%
Loss severity	35% - 60%	60% - 65%	55% - 75%

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Changes in Intent to Sell Temporarily Impaired Assets

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that it did not intend to sell at the balance sheet date. Conversely, the Company may not sell invested assets that it asserted that it intended to sell at the balance sheet date. Such changes in intent are generally due to events occurring subsequent to the balance sheet date. The types of events that may result in a change in intent include, but are not limited to, significant changes in the economic facts and circumstances related to the invested asset, significant unforeseen changes in liquidity needs, or changes in tax laws or the regulatory environment.

Impairment Charges

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

(in millions)	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Fixed maturities				
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	**$**	$	**$**	$
Obligations of states, municipalities and political subdivisions				1
Debt securities issued by foreign governments				
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**7**	15	**65**	15
All other corporate bonds	**11**	107	**83**	143
Redeemable preferred stock		3		4
Total fixed maturities	**18**	125	**148**	163
Equity securities				
Common stock		7	**15**	13

Non-redeemable preferred stock		23	**64**	34
Total equity securities		30	**79**	47
Other investments	**1**	1	**6**	12
Total	**$ 19**	$ 156	**$ 233**	$ 222

The following tables present a roll-forward of the credit component of other-than-temporary impairments (OTTI) on fixed maturities recognized in the consolidated statement of income for which a portion of the other-than-temporary impairment was recognized in accumulated other changes in equity from nonowner sources for the periods July 1, 2009 through September 30, 2009, and April 1, 2009 through September 30, 2009:

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

July 1, 2009 through September 30, 2009 (in millions)	July 1, 2009 Cumulative OTTI Credit Losses Recognized for Securities Still Held	Additions for OTTI Securities Where No Credit Losses Were Recognized Prior to July 1, 2009	Additions for OTTI Securities Where Credit Losses Have Been Recognized Prior to July 1, 2009	Reductions Due to Sales of Credit-Impaired Securities	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	September 30, 2009 Cumulative OTTI Credit Losses Recognized for Securities Still Held
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 20	$ 4	$ 3	$	$ (2)	$ 25
All other corporate bonds	95	1	7	(4)	1	100
Total fixed maturities	$ 115	$ 5	$ 10	$ (4)	$ (1)	$ 125

April 1, 2009 through September 30, 2009 (1) (in millions)	April 1, 2009 Cumulative OTTI Credit Losses Recognized for Securities Still Held	Additions for OTTI Securities Where No Credit Losses Were Recognized Prior to April 1, 2009	Additions for OTTI Securities Where Credit Losses Have Been Recognized Prior to April 1, 2009	Reductions Due to Sales of Credit-Impaired Securities	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	September 30, 2009 Cumulative OTTI Credit Losses Recognized for Securities Still Held
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 13	$ 7	$ 7	$	$ (2)	$ 25
All other corporate bonds	82	8	13	(4)	1	100
Total fixed maturities	$ 95	$ 15	$ 20	$ (4)	$ (1)	$ 125

(1) The credit component of OTTI on fixed maturities is reported separately effective April 1, 2009, the date that the Company adopted the new guidance for OTTI. See note 1.

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 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.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Valuation of Investments Reported at Fair Value in Financial Statements

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of fixed maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party, nationally recognized pricing service (pricing service). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly used for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third-party market participant would be willing to pay in an arm s length transaction.

Fixed Maturities

The Company utilizes a pricing service to estimate fair value measurements for approximately 99% of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

The pricing service evaluates each asset class based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

The pricing service utilized by the Company has indicated that they will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If the pricing service discontinues pricing an investment, the Company would be required to produce an estimate of fair value using some of the same methodologies as the pricing service but would have to make assumptions for market-based inputs that are unavailable due to market conditions.

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value of U.S. Treasury securities is included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

The Company holds privately placed corporate bonds and estimates the fair value of these bonds using an internal matrix that is based on market information regarding interest rates, credit spreads and liquidity. The underlying source data for calculating the matrix of credit spreads relative to the U.S. Treasury curve are the Merrill Lynch U.S. Corporate Index and the Merrill Lynch High Yield BB Rated Index. The Company includes the fair value estimates of these corporate bonds in Level 2, since all significant inputs are market observable. As many of these securities are issued by public companies, the Company compares the estimates of fair value to the fair values of these companies publicly traded debt to test the validity of the internal pricing matrix.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

While the vast majority of the Company s municipal bonds are included in Level 2, the Company holds a small number of municipal bonds which are not valued by the pricing service and estimates the fair value of these bonds using an internal pricing matrix with some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3. Additionally, the Company holds a small amount of fixed maturities that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker (typically a market maker). Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

Equities Public Common and Preferred

For public common and preferred stocks, the Company receives prices from a nationally recognized pricing service that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. Infrequently, current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company. In these instances, the Company receives an estimate of fair value from the pricing service that provides fair value estimates for the Company s fixed maturities. The service utilizes some of the same methodologies to price the non-redeemable preferred stocks as it does for the fixed maturities. The Company includes the fair value estimate for these non-redeemable preferred stocks in the amount disclosed in Level 2.

Other Investments

Public Common and Other Securities

The Company holds investments in various publicly-traded securities which are reported in other investments. The $41 million fair value of these investments at September 30, 2009 is disclosed in Level 1. These investments include securities in the Company s trading portfolio ($23 million), mutual funds ($13 million) and various other small holdings ($5 million).

Venture Capital Investments and Non-Public Common and Preferred Equity Securities

The Company holds investments in venture capital investments and non-public common and preferred equity securities, with a fair value estimate of $295 million at September 30, 2009, reported in other investments, where the fair value estimate is determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Included in the $295 million fair value estimate was one private common stock (Insurance Services Office) (ISO) with a fair value estimate of $230 million at September 30, 2009. In October 2009, ISO effected an internal reorganization whereby ISO became a subsidiary of the new holding company Verisk Analytics, Inc. (Verisk), and all outstanding shares of ISO common stock were exchanged for Verisk common stock on a one-for-one basis. Following this reorganization, Verisk effected a 50-to-1 stock split and consummated an initial public offering of its common stock. Verisk common stock began trading October 7, 2009 on the NASDAQ Global Select Market under the ticker VRSK. As a result, the fair value of the Company s holdings of ISO common stock at September 30, 2009 was determined by the initial public offering price of Verisk, adjusted for a liquidity discount which takes into consideration the restriction on the common stock that existed at September 30, 2009. Due to the significant unobservable inputs in these valuations, the Company includes the total fair value estimate for all of these investments at September 30, 2009 in the amount disclosed in Level 3. See note 13 for further information regarding the Company s October 2009 sale of a portion of its holdings in Verisk.

Derivatives

The Company uses derivatives generally to hedge its net investment in a foreign subsidiary. The Company also holds non-public warrants in a public company and has convertible bonds containing embedded conversion options that are reported separately from the host bond contract. For the derivatives used to hedge the net investment of a foreign subsidiary, the Company uses quoted market prices to estimate fair value and includes the fair value estimate, which was in a liability position of approximately $4 million at September 30, 2009, in Level 1. The Company estimates fair value for the warrants using an option pricing model with observable market inputs. Because the warrants are not market traded and information concerning market participants is not available, the Company includes the fair value estimate of $84 million at September 30, 2009 in the amount disclosed in Level 3 - other investments. The Company separately values the embedded conversion options based on observable market inputs and includes the estimate of fair value in Level 2.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Fair Value Hierarchy

The following table presents the level within the fair value hierarchy at which the Company s financial assets and financial liabilities are measured on a recurring basis at September 30, 2009.

(in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 1,650	$ 1,593	$ 57	$
Obligations of states, municipalities and political subdivisions	41,732	3	41,707	22
Debt securities issued by foreign governments	1,876		1,876	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	5,428		5,405	23
All other corporate bonds	14,616		14,500	116
Redeemable preferred stock	48	35	13	
Total fixed maturities	65,350	1,631	63,558	161
Equity securities				
Common stock	194	194		
Non-redeemable preferred stock	241	151	90	
Total equity securities	435	345	90	
Other investments (1)	420	41		379
Total	$ 66,205	$ 2,017	$ 63,648	$ 540
Other liabilities (2)	$ 4	$ 4	$	$

(1) The amount in Level 3 includes $84 million of non-public stock purchase warrants of a publicly-held company.

(2) Other liabilities represent the fair value of a derivative used to hedge the net investment in a foreign subsidiary.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

The following table presents the changes in the Level 3 fair value category during the period indicated.

(in millions)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Balance at beginning of period	$ 479	$ 465
Total realized and unrealized investment gains (losses):		
Included in realized investment gains (losses)	27	(15)
Included in increases (decreases) in accumulated other changes in equity from nonowner sources	53	84
Purchases, (sales), issuances and settlements	(3)	26
Gross transfers into Level 3	5	7
Gross transfers out of Level 3	(21)	(27)
Balance at September 30, 2009	$ 540	$ 540
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	$ 29	$ (3)

The Company had no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the three or nine months ended September 30, 2009.

Financial Instruments Disclosed, But Not Carried, At Fair Value

The Company uses various financial instruments in the normal course of its business. The Company s insurance contracts are excluded from fair value of financial instruments accounting guidance and, therefore, are not included in the amounts discussed below.

The carrying values of cash, short-term securities and investment income accrued approximated their fair values.

The carrying values of $664 million and $718 million of financial instruments classified as other assets approximated their fair values at September 30, 2009 and December 31, 2008, respectively. The carrying values of $4.10 billion and $4.34 billion of financial instruments classified as other liabilities at September 30, 2009 and December 31, 2008, respectively, also approximated their fair values. Fair value is determined using various methods including discounted cash flows, as appropriate for the various financial instruments.

The carrying value and fair value of the Company s debt at September 30, 2009 was $6.53 billion and $6.90 billion, respectively. The respective totals at December 31, 2008 were $6.18 billion and $5.54 billion. The Company utilized a pricing service to estimate fair value measurements for approximately 96% of its debt, other than commercial paper, at September 30, 2009 and December 31, 2008. The pricing service utilizes market quotations for debt that have quoted prices in active markets. For the small amount of the Company s debt securities for which a pricing service is not used, the Company utilizes pricing estimates from a nationally recognized broker/dealer to estimate fair value. If estimates of fair value are unavailable from the pricing service or the broker/dealer, the Company produces an estimate of fair value based on internally developed valuation techniques which are based on a discounted cash flow methodology and incorporates all available relevant observable market inputs.

The fair value of commercial paper included in debt outstanding at September 30, 2009 and December 31, 2008 approximated its book value because of its short-term nature.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company s goodwill by segment at September 30, 2009 and December 31, 2008:

(in millions)	September 30, 2009	December 31, 2008
Business Insurance	**$ 2,168**	$ 2,168
Financial, Professional & International Insurance	**557**	556
Personal Insurance	**613**	613
Other	**27**	29
Total	**$ 3,365**	$ 3,366

Other Intangible Assets

The following tables present a summary of the Company s other intangible assets by major asset class at September 30, 2009 and December 31, 2008:

(at September 30, 2009, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization			
Customer-related	**$ 935**	**$ 705**	**$ 230**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	**191**	**25**	**166**
Total intangible assets subject to amortization	**1,126**	**730**	**396**
Intangible assets not subject to amortization	**216**		**216**
Total other intangible assets	**$ 1,342**	**$ 730**	**$ 612**

(at December 31, 2008, in millions)	Gross Carrying Amount	Accumulated Amortization	Net

Intangible assets subject to amortization						
Customer-related	$	935	$	650	$	285
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)		191		4		187
Total intangible assets subject to amortization		1,126		654		472
Intangible assets not subject to amortization		216				216
Total other intangible assets	$	1,342	$	654	$	688

(1) The time value of money and the risk margin (cost of capital) components of the intangible asset run off at different rates, and, as such, the amount recognized in income may be a net benefit in some periods and a net expense in other periods.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

The following table presents a summary of the Company s amortization expense for other intangible assets by major asset class:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Customer-related	**$ 17**	$ 23	**$ 55**	$ 75
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**7**	8	**21**	23
Total amortization expense	**$ 24**	$ 31	**$ 76**	$ 98

Intangible asset amortization expense is estimated to be $24 million for the remainder of 2009, $86 million in 2010, $69 million in 2011, $52 million in 2012 and $45 million in 2013.

6. DEBT

Convertible Note Maturity. On March 3, 2009, the Company s zero coupon convertible notes with an effective yield of 4.17% and a remaining principal balance of $141 million matured and were fully paid.

Senior Debt Issuance. On June 2, 2009, the Company issued $500 million aggregate principal amount of 5.90% senior notes that will mature on June 2, 2019. The net proceeds of the issuance, after original issuance discount and the deduction of underwriting expenses and commissions and other expenses, totaled approximately $494 million. Interest on the senior notes is payable semi-annually in arrears on June 2 and December 2 of each year, commencing December 2, 2009. The senior notes are redeemable in whole at any time or in part from time to time, at the Company s option, at a redemption price equal to the greater of (a) 100% of the principal amount of senior notes to be redeemed or (b) the sum of the present values of the remaining scheduled payments of principal and interest on the senior notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current treasury rate (as defined) plus 35 basis points for the senior notes.

7. SHARE REPURCHASE AUTHORIZATION

The Company s board of directors has authorized the repurchase of the Company s common shares. Under the authorization, repurchases may be made from time to time in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorization does not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including corporate and regulatory requirements, price, catastrophe losses and other market conditions. During the three months and nine months ended September 30, 2009, the Company repurchased 20.8 million and 39.3 million shares, respectively, under its share repurchase authorization for a total cost of approximately $1.00 billion and $1.75 billion, respectively. The average cost per share repurchased during the three months and nine months ended September 30, 2009 was $48.02 and $44.56, respectively. At September 30, 2009, the Company had $2.06 billion of capacity remaining under its share repurchase authorization. In October 2009, the Company s board of directors authorized up to an additional $6 billion for share repurchases.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

8. CHANGES IN EQUITY FROM NONOWNER SOURCES

The Company s total changes in equity from nonowner sources were as follows:

(in millions, after-tax)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income	**$ 935**	$ 214	**$ 2,337**	$ 2,123
Change in net unrealized gain (loss) on investments:				
Having no credit losses recognized in the consolidated statement of income	**1,322**	(881)	**2,348**	(1,438)
Having credit losses recognized in the consolidated statement of income	**50**		**103**	
Other changes	**27**	(130)	**177**	(164)
Total changes in equity from nonowner sources	**$ 2,334**	$ (797)	**$ 4,965**	$ 521

9. EARNINGS PER SHARE

Basic earnings per share was computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflected the effect of potentially dilutive securities.

On January 1, 2009, the Company adopted the new guidance related to earnings per share as described in note 1. The impact of the adoption of this guidance was a reduction of previously reported basic earnings per share by $0.02 per share for the nine months ended September 30, 2008. The adoption had no impact on previously reported basic earnings per share for the three months ended September 30, 2008, and it had no impact on the previously reported diluted earnings per share for both of those periods.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

9. EARNINGS PER SHARE, Continued

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

(in millions, except per share amounts)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Basic				
Net income, as reported	**$ 935**	$ 214	**$ 2,337**	$ 2,123
Preferred stock dividends	**(1)**	(1)	**(3)**	(3)
Participating share-based awards allocated income	**(6)**	(1)	**(16)**	(14)
Net income available to common shareholders basic	**$ 928**	$ 212	**$ 2,318**	$ 2,106
Diluted				
Net income available to common shareholders	**$ 928**	$ 212	**$ 2,318**	$ 2,106
Effect of dilutive securities:				
Performance shares	**1**		**1**	
Convertible preferred stock	**1**	1	**3**	3
Zero coupon convertible notes		1	**1**	3
Net income available to common shareholders diluted	**$ 930**	$ 214	**$ 2,323**	$ 2,112
Common shares				
Basic				
Weighted average shares outstanding	**558.4**	586.7	**572.8**	600.0
Diluted				
Weighted average shares outstanding	**558.4**	586.7	**572.8**	600.0
Weighted average effects of dilutive securities:				
Stock options and performance shares	**3.7**	3.3	**2.1**	4.2
Convertible preferred stock	**2.0**	2.3	**2.1**	2.5
Zero coupon convertible notes		2.4	**0.5**	2.4
Total	**564.1**	594.7	**577.5**	609.1
Net Income per Common Share				
Basic	**$ 1.66**	$ 0.36	**$ 4.05**	$ 3.51
Diluted	**$ 1.65**	$ 0.36	**$ 4.02**	$ 3.47

10. SHARE-BASED INCENTIVE COMPENSATION

The following presents information for fully vested stock option awards at September 30, 2009:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value ($ in millions)
Vested at end of period (1)	**27,596,760**	**$ 45.22**	**3.4 years**	**$ 143**
Exercisable at end of period	**24,719,960**	**$ 45.21**	**2.9 years**	**$ 129**

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

10. SHARE-BASED INCENTIVE COMPENSATION, Continued

The total compensation cost recognized in earnings for all share-based incentive compensation awards was $27 million and $31 million for the three months ended September 30, 2009 and 2008, respectively, and $92 million and $97 million for the nine months ended September 30, 2009 and 2008, respectively. The related tax benefit recognized in the consolidated statement of income was $9 million and $11 million for the three months ended September 30, 2009 and 2008, respectively, and $31 million and $33 million for the nine months ended September 30, 2009 and 2008, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at September 30, 2009 was $135 million, which is expected to be recognized over a weighted-average period of 1.8 years. The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at December 31, 2008 was $112 million, which was expected to be recognized over a weighted-average period of 1.7 years.

11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

The following table summarizes the components of net periodic benefit cost for the Company s pension and postretirement benefit plans recognized in the consolidated statement of income.

(for the three months ended September 30, in millions)	**Pension Plans**		**Postretirement Benefit Plans**	
	2009	**2008**	**2009**	**2008**
Net Periodic Benefit Cost:				
Service cost	**$ 20**	$ 19	**$**	$
Interest cost on benefit obligation	**31**	29	**4**	3
Expected return on plan assets	**(45)**	(43)		
Amortization of unrecognized:				
Prior service benefit	**(1)**	(1)		
Net actuarial loss	**5**	2		
Net benefit expense	**$ 10**	$ 6	**$ 4**	$ 3

(for the nine months ended September 30, in millions)	**Pension Plans**		**Postretirement Benefit Plans**	
	2009	**2008**	**2009**	**2008**

Net Periodic Benefit Cost:								
Service cost	**$**	**60**	$	57	**$**		$	
Interest cost on benefit obligation		**94**		88		**13**		11
Expected return on plan assets		**(132)**		(119)		**(1)**		(1)
Amortization of unrecognized:								
Prior service benefit		**(4)**		(4)				
Net actuarial loss (gain)		**16**		6				(2)
Net benefit expense	**$**	**34**	$	28	**$**	**12**	$	8

Employer Contributions

The Company previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2008 that it had not yet determined whether it would make additional pension plan funding during the 2009 fiscal year. In September 2009, the Company made a contribution of $110 million to its pension plan.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

The following section describes the major pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or to which any of their properties are subject.

Asbestos- and Environmental-Related Proceedings

In the ordinary course of its insurance business, the Company receives claims for insurance arising under policies issued by the Company asserting alleged injuries and damages from asbestos- and environmental-related exposures that are the subject of related coverage litigation, including, among others, the litigation described below. The Company continues to be subject to aggressive asbestos-related litigation. The conditions surrounding the final resolution of these claims and the related litigation continue to change. The Company is defending its asbestos- and environmental-related litigation vigorously and believes that it has meritorious defenses; however, the outcomes of these disputes are uncertain. In this regard, the Company employs dedicated specialists and aggressive resolution strategies to manage asbestos and environmental loss exposure, including settling litigation under appropriate circumstances. For other information regarding the Company s asbestos and environmental exposure, including the results of its annual in-depth asbestos claim review as well as its quarterly asbestos reserve review, see Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Asbestos Claims and Litigation, Environmental Claims and Litigation and Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.

Asbestos Direct Action Litigation In October 2001 and April 2002, two purported class action suits (*Wise v. Travelers* and *Meninger v. Travelers*) were filed against Travelers Property Casualty Corp. (TPC) and other insurers (not including The St. Paul Companies, Inc. (SPC)) in state court in West Virginia. These and other cases subsequently filed in West Virginia were consolidated into a single proceeding in the Circuit Court of Kanawha County, West Virginia. The plaintiffs allege that the insurer defendants engaged in unfair trade practices in violation of state statutes by inappropriately handling and settling asbestos claims. The plaintiffs seek to reopen large numbers of settled asbestos claims and to impose liability for damages, including punitive damages, directly on insurers. Similar lawsuits alleging inappropriate handling and settling of asbestos claims were filed in Massachusetts and Hawaii state courts. These suits are collectively referred to as the Statutory and Hawaii Actions.

In March 2002, the plaintiffs in consolidated asbestos actions pending before a mass tort panel of judges in West Virginia state court amended their complaint to include TPC as a defendant, alleging that TPC and other insurers breached alleged duties to certain users of asbestos products. The plaintiffs seek damages, including punitive damages. Lawsuits seeking similar relief and raising similar allegations, primarily violations of purported common law duties to third parties, have also been asserted in various state courts against TPC and SPC. The claims asserted in these suits are collectively referred to as the Common Law Claims.

The federal bankruptcy court that had presided over the bankruptcy of TPC s former policyholder Johns-Manville Corporation issued a temporary injunction prohibiting the prosecution of the Statutory Actions (but not the Hawaii Actions), the Common Law Claims and an additional set of cases filed in various state courts in Texas and Ohio, and enjoining certain attorneys from filing any further lawsuits against TPC based on similar allegations. Notwithstanding the injunction, additional common law claims were filed against TPC.

In November 2003, the parties reached a settlement of the Statutory and Hawaii Actions. This settlement includes a lump-sum payment of up to $412 million by TPC, subject to a number of significant contingencies. In May 2004, the parties reached a settlement resolving substantially all pending and similar future Common Law Claims against TPC. This settlement requires a payment of up to $90 million by TPC, subject to a number of significant contingencies. Among the contingencies for each of these settlements is a final order of the bankruptcy court clarifying that all of these claims, and similar future asbestos-related claims against TPC, are barred by prior orders entered by the bankruptcy court (the 1986 Orders).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

On August 17, 2004, the bankruptcy court entered an order approving the settlements and clarifying that the 1986 Orders barred the pending Statutory and Hawaii Actions and substantially all Common Law Claims pending against TPC (the Clarifying Order). The Clarifying Order also applies to similar direct action claims that may be filed in the future.

On March 29, 2006, the U.S. District Court for the Southern District of New York substantially affirmed the Clarifying Order while vacating that portion of the order that required all future direct actions against TPC to first be approved by the bankruptcy court before proceeding in state or federal court.

Various parties appealed the district court s March 29, 2006 ruling to the U.S. Court of Appeals for the Second Circuit. On February 15, 2008, the Second Circuit issued an opinion vacating on jurisdictional grounds the District Court s approval of the Clarifying Order. On February 29, 2008, TPC and certain other parties to the appeals filed petitions for rehearing and/or rehearing *en banc*, requesting reinstatement of the district court s judgment, which were denied.TPC and certain other parties filed Petitions for Writ of Certiorari in the United States Supreme Court seeking review of the Second Circuit s decision, and on December 12, 2008, the Petitions were granted.

On June 18, 2009, the Supreme Court ruled in favor of the Company, reversing the Second Circuit s February 15, 2008 decision, finding, among other things, that the 1986 Orders are final and generally bar the Statutory and Hawaii actions and substantially all Common Law Claims against TPC. Further, the Supreme Court ruled that the bankruptcy court had jurisdiction to issue the Clarifying Order. However, since the Second Circuit had not ruled on certain additional issues, principally related to procedural matters and the adequacy of notice provided to certain parties, the Supreme Court remanded the case to the Second Circuit for further proceedings on those specific issues. Accordingly, the settlements are not yet final. On October 21, 2009, certain of the objectors to the settlement of the Common Law Claims filed a request with the Second Circuit seeking dismissal of their appeal of the order approving the settlement. The Second Circuit has not acted on this request and oral argument on the issues remaining to be considered on remand is scheduled for October 22, 2009.

SPC, which is not covered by the Manville bankruptcy court rulings or the settlements described above, is a party to pending direct action cases in Texas state court asserting common law claims. All such cases that are still pending and in which SPC has been served are currently on the inactive docket in Texas state court. If any of those cases becomes active, SPC intends to litigate those cases vigorously. SPC was previously a defendant in similar direct actions in Ohio state court. Those actions have all been dismissed following favorable rulings by Ohio trial and appellate courts.

Currently, it is not possible to predict legal outcomes and their impact on the future development of claims and litigation relating to asbestos and environmental claims. Any such development will be affected by future court decisions and interpretations, as well as changes in applicable legislation. Because of these uncertainties, additional liabilities may arise for amounts in excess of the current related reserves. In addition, the Company s estimate of ultimate claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company s results of operations in future periods.

Other Proceedings

Reinsurance Litigation From time to time, the Company is involved in proceedings addressing disputes with its reinsurers regarding the collection of amounts due under the Company s reinsurance agreements. These proceedings may be initiated by the Company or the reinsurers and may involve the terms of the reinsurance agreements, the coverage of particular claims, exclusions under the agreements, as well as counterclaims for rescission of the agreements. One of these disputes is the action described in the following paragraphs.

The Company s Gulf operation brought an action on May 22, 2003 in the Supreme Court of New York, County of New York (*Gulf Insurance Company v. Transatlantic Reinsurance Company, et al.*), against several reinsurers, later amended to include Gerling Global Reinsurance Corporation of America (Gerling), to recover amounts due under reinsurance contracts issued to Gulf and related to Gulf s February 2003 settlement of a coverage dispute under a vehicle residual value protection insurance policy. Gerling has sought rescission of the reinsurance contracts and unspecified damages for breach of contract. In prior years, Gulf entered into final settlement agreements with the reinsurers other than Gerling.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

In November 2007, the trial court issued rulings denying Gulf s motion for partial summary judgment against Gerling and granting Gerling s motion for partial summary judgment on certain claims and counterclaims. Gulf appealed the trial court s decision to the Supreme Court of New York Appellate Division, First Department. On October 1, 2009, the Appellate Division issued an opinion reversing certain portions of the trial court s summary judgment rulings, while affirming other portions of those rulings and remanded the case to the trial court. Notwithstanding that certain of Gulf s claims have been precluded by the Appellate Division s opinion, Gulf continues to believe that it has a strong legal basis to collect the remaining amounts disputed under the reinsurance contracts and will continue to vigorously pursue the action.

Based on the Company s beliefs about its legal positions in its various reinsurance recovery proceedings, the Company does not expect any of these matters will have a material adverse effect on its results of operations in a future period.

Industry-Wide Investigations As previously disclosed, as part of industry-wide investigations that commenced in October 2004, the Company and its affiliates received subpoenas and written requests for information from a number of government agencies and authorities, including, among others, state attorneys general, state insurance departments, the U.S. Attorney for the Southern District of New York and the U.S. Securities and Exchange Commission (SEC). The areas of pending inquiry addressed to the Company included its relationship with brokers and agents and the Company s involvement with non-traditional insurance and reinsurance products. The Company and its affiliates may receive additional subpoenas and requests for information with respect to these matters.

The Company cooperated with these subpoenas and requests for information. In addition, outside counsel, with the oversight of the Company s board of directors, conducted an internal review of these matters. This review was commenced after the announcement of litigation brought in October 2004 by the New York Attorney General s office against a major broker. In particular, upon completion of its review with respect to non-traditional insurance and reinsurance products, the Company concluded that no adjustment to previously issued financial statements was required. Any authority with open inquiries or investigations could ask that additional work be performed or reach conclusions different from the Company s.

Broker Anti-Trust Litigation In 2005, four putative class action lawsuits were brought against a number of insurance brokers and insurers, including the Company and/or certain of its affiliates, by plaintiffs who allegedly purchased insurance products through one or more of the defendant brokers. The plaintiffs alleged that various insurance brokers conspired with each other and with various insurers, including the Company and/or certain of its affiliates, to artificially inflate premiums, allocate brokerage customers and rig bids for insurance products offered to those customers. To the extent they were not originally filed there, the federal class actions were transferred to the U.S. District Court for the District of New Jersey and were consolidated for pre-trial proceedings with other class actions under the caption *In re Insurance Brokerage Antitrust Litigation*. On August 1, 2005, various plaintiffs, including the four named plaintiffs in the above-referenced class actions, filed an amended consolidated class action complaint naming various brokers and insurers, including the Company and certain of its affiliates, on behalf of a putative nationwide class of policyholders. The complaint included causes of action under the Sherman Act, the Racketeer Influenced and

Corrupt Organizations Act (RICO), state common law and the laws of the various states prohibiting antitrust violations. The complaint sought monetary damages, including punitive damages and trebled damages, permanent injunctive relief, restitution, including disgorgement of profits, interest and costs, including attorneys fees. All defendants moved to dismiss the complaint for failure to state a claim. After giving plaintiffs multiple opportunities to replead, the court dismissed the Sherman Act claims on August 31, 2007 and the RICO claims on September 28, 2007, both with prejudice, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs appealed the district court s decisions to the U.S. Court of Appeals for the Third Circuit. Oral argument before the Third Circuit took place on April 21, 2009. The parties await a ruling from the Third Circuit. Additional individual actions have been brought in state and federal courts against the Company involving allegations similar to those in *In re Insurance Brokerage Antitrust Litigation,* and further actions may be brought. The Company believes that all of these lawsuits have no merit and intends to defend vigorously.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Other In addition to those described above, the Company is involved in numerous lawsuits, not involving asbestos and environmental claims, arising mostly in the ordinary course of business operations, either as a liability insurer defending third-party claims brought against policyholders or as an insurer defending claims brought against it relating to coverage or the Company s business practices. While the ultimate resolution of these legal proceedings could be material to the Company s results of operations in a future period, in the opinion of the Company s management, none would likely have a material adverse effect on the Company s financial position or liquidity.

The Company previously reported that it sought guidance from the Division of Corporation Finance of the SEC with respect to the appropriate purchase accounting treatment for certain second quarter 2004 adjustments totaling $1.63 billion. See Management s Discussion and Analysis of Financial Condition and Results of Operations Other Matters. After discussion with the staff of the Division of Corporate Finance and the Company s independent auditors, the Company continues to believe that its accounting treatment for these adjustments is appropriate. On May 3, 2006, the Company received a letter from the Division of Enforcement of the SEC advising the Company that it is conducting an inquiry relating to the second quarter 2004 adjustments and the April 1, 2004 merger of SPC and TPC. The Company cooperated with the requests for information.

Other Commitments and Guarantees

Commitments

Investment Commitments The Company has unfunded commitments to partnerships, limited liability companies, joint ventures and certain private equity investments in which it invests. These commitments were $1.39 billion and $1.56 billion at September 30, 2009 and December 31, 2008, respectively.

Guarantees

The Company has contingent obligations for guarantees related to letters of credit, issuance of debt securities, certain investments and various indemnifications, including those related to the sale of business entities. The Company also provides standard indemnifications to service providers in the normal course of business. The indemnification clauses are often standard contractual terms. Certain of these guarantees and indemnifications have no stated or notional amounts or limitation to the maximum potential future payments, and, accordingly, the Company is unable to develop an estimate of the maximum potential payments for such arrangements.

In the ordinary course of selling business entities to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the business entities being sold, covenants and obligations of the Company and/or its subsidiaries following the closing, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development, imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, or certain named litigation. Such indemnification provisions generally survive for periods ranging from 12 months following the applicable closing date to the expiration of the relevant statutes of limitations, or in some cases agreed upon term limitations. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. At September 30, 2009, the maximum amount of the Company s contingent obligation for those indemnifications that are quantifiable related to sales of business entities was $2.13 billion, of which $36 million was recognized on the balance sheet at September 30, 2009.

13. SUBSEQUENT EVENTS

In October 2009, the Company sold 50% (8.7 million shares) of the common stock it owned in Verisk Analytics, Inc. (Verisk) for total proceeds of approximately $184 million as part of the initial public offering (IPO) of Verisk. As a result of the sale, the Company expects to record a pretax realized investment gain of approximately $159 million ($103 million after-tax) in the fourth quarter of 2009. The Company continues to own 8.7 million shares of common stock of Verisk, 50% of which are generally not transferable until 18 months following the IPO and 50% of which are generally not transferable until 24 months following the IPO.

There were no further subsequent events requiring adjustment to the financial statements or disclosure through October 22, 2009, the date that the Company s financial statements were issued.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

The following consolidating financial statements of the Company have been prepared pursuant to Rule 3-10 of Regulation S-X. These consolidating financial statements have been prepared from the Company s financial information on the same basis of accounting as the consolidated financial statements. The Travelers Companies, Inc. has fully and unconditionally guaranteed certain debt obligations of TPC, its wholly-owned subsidiary, which totaled $1.19 billion at September 30, 2009.

Prior to the merger, TPC fully and unconditionally guaranteed the payment of all principal, premiums, if any, and interest on certain debt obligations of its wholly-owned subsidiary, Travelers Insurance Group Holdings, Inc. (TIGHI). The Travelers Companies, Inc. has fully and unconditionally guaranteed such guarantee obligations of TPC. TPC has no material assets or operations independent of TIGHI. Consolidating financial information for TIGHI has not been presented herein because such financial information would be substantially the same as the financial information provided for TPC.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,653	$ 1,768	$	$	$ 5,421
Net investment income	524	233	6		763
Fee income	74	(2)			72
Net realized investment gains (losses)	12	(11)	28		29
Other revenues	34	8			42
Total revenues	4,297	1,996	34		6,327
Claims and expenses					
Claims and claim adjustment expenses	2,084	1,039			3,123
Amortization of deferred acquisition costs	646	321			967
General and administrative expenses	580	301	8		889
Interest expense	16	1	81		98
Total claims and expenses	3,326	1,662	89		5,077
Income (loss) before income taxes	971	334	(55)		1,250
Income tax expense (benefit)	244	85	(14)		315
Equity in net income of subsidiaries			976	(976)	
Net income	$ 727	$ 249	$ 935	$ (976)	$ 935

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total losses	$ (16)	$ (26)	$ (1)	$	$ (43)
Portion of losses recognized in accumulated other changes in equity from nonowner sources	4	20			24
Other-than-temporary impairment losses	(12)	(6)	(1)		(19)
Other net realized investment gains (losses)	24	(5)	29		48
Net realized investment gains (losses)	$ 12	$ (11)	$ 28	$	$ 29

---

(1) The Travelers Companies, Inc., excluding its subsidiaries.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 2008

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,617	$ 1,831	$	$	$ 5,448
Net investment income	459	242	15		716
Fee income	119	1			120
Net realized investment gains (losses)	(134)	(55)	19		(170)
Other revenues	42	(11)			31
Total revenues	4,103	2,008	34		6,145
Claims and expenses					
Claims and claim adjustment expenses	2,537	1,334			3,871
Amortization of deferred acquisition costs	675	315			990
General and administrative expenses	712	275	14		1,001
Interest expense	18	1	76		95
Total claims and expenses	3,942	1,925	90		5,957
Income (loss) before income taxes	161	83	(56)		188
Income tax expense (benefit)	(31)	8	(3)		(26)
Equity in net income of subsidiaries			267	(267)	
Net income	$ 192	$ 75	$ 214	$ (267)	$ 214

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total losses	$ (103)	$ (51)	$ (2)	$	$ (156)
Portion of losses recognized in accumulated other changes in equity from nonowner sources					
Other-than-temporary impairment losses	(103)	(51)	(2)		(156)
Other net realized investment gains (losses)	(31)	(4)	21		(14)
Net realized investment gains (losses)	$ (134)	$ (55)	$ 19	$	$ (170)

(1) The Travelers Companies, Inc., excluding its subsidiaries.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 10,868	$ 5,207	$	$	$ 16,075
Net investment income	1,279	665	19		1,963
Fee income	237	(3)			234
Net realized investment losses	(76)	(91)	(5)		(172)
Other revenues	102	22			124
Total revenues	12,410	5,800	14		18,224
Claims and expenses					
Claims and claim adjustment expenses	6,441	3,207			9,648
Amortization of deferred acquisition costs	1,914	950			2,864
General and administrative expenses	1,640	852	18		2,510
Interest expense	50	3	231		284
Total claims and expenses	10,045	5,012	249		15,306
Income (loss) before income taxes	2,365	788	(235)		2,918
Income tax expense (benefit)	545	165	(129)		581
Equity in net income of subsidiaries			2,443	(2,443)	
Net income	$ 1,820	$ 623	$ 2,337	$ (2,443)	$ 2,337

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total losses	$ (174)	$ (127)	$ (1)	$	$ (302)
Portion of losses recognized in accumulated other changes in equity from nonowner sources	32	37			69
Other-than-temporary impairment losses	(142)	(90)	(1)		(233)
Other net realized investment gains (losses)	66	(1)	(4)		61
Net realized investment losses	$ (76)	$ (91)	$ (5)	$	$ (172)

(1) The Travelers Companies, Inc., excluding its subsidiaries.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2008

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 10,834	$ 5,311	$	$	$ 16,145
Net investment income	1,486	782	41		2,309
Fee income	314	1			315
Net realized investment gains (losses)	(173)	(32)	9		(196)
Other revenues	56	42	5	(4)	99
Total revenues	12,517	6,104	55	(4)	18,672
Claims and expenses					
Claims and claim adjustment expenses	6,646	3,338			9,984
Amortization of deferred acquisition costs	1,964	941			2,905
General and administrative expenses	1,871	825	22		2,718
Interest expense	56	4	220	(4)	276
Total claims and expenses	10,537	5,108	242	(4)	15,883
Income (loss) before income taxes	1,980	996	(187)		2,789
Income tax expense	446	205	15		666
Equity in net income of subsidiaries			2,325	(2,325)	
Net income	$ 1,534	$ 791	$ 2,123	$ (2,325)	$ 2,123

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total losses	$ (154)	$ (65)	$ (3)	$	$ (222)
Portion of losses recognized in accumulated other changes in equity from nonowner sources					
Other-than-temporary impairment losses	(154)	(65)	(3)		(222)
Other net realized investment gains (losses)	(19)	33	12		26
Net realized investment gains (losses)	$ (173)	$ (32)	$ 9	$	$ (196)

(1) The Travelers Companies, Inc., excluding its subsidiaries.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At September 30, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale at fair value (including $81 subject to securities lending) (amortized cost $62,208)	$ 44,053	$ 20,998	$ 299	$	$ 65,350
Equity securities, at fair value (cost $387)	204	177	54		435
Real estate	2	870			872
Short-term securities	3,037	1,261	2,269		6,567
Other investments	1,821	904	174		2,899
Total investments	49,117	24,210	2,796		76,123
Cash	145	133	8		286
Investment income accrued	527	263	4		794
Premiums receivable	4,060	1,897			5,957
Reinsurance recoverables	8,706	4,633			13,339
Ceded unearned premiums	911	165			1,076
Deferred acquisition costs	1,560	265			1,825
Deferred tax asset	385	162	56		603
Contractholder receivables	4,783	1,674			6,457
Goodwill	2,411	954			3,365
Other intangible assets	364	248			612
Investment in subsidiaries			30,935	(30,935)	
Other assets	1,903	220	57		2,180
Total assets	$ 74,872	$ 34,824	$ 33,856	$ (30,935)	$ 112,617
Liabilities					
Claims and claim adjustment expense reserves	$ 35,190	$ 18,734	$	$	$ 53,924
Unearned premium reserves	7,781	3,428			11,209
Contractholder payables	4,783	1,674			6,457
Payables for reinsurance premiums	399	288			687
Debt	1,192	9	5,327		6,528
Other liabilities	4,048	1,228	376		5,652
Total liabilities	53,393	25,361	5,703		84,457
Shareholders equity					
			81		81

Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)					
Common stock (1,750.0 shares authorized; 547.9 shares issued and outstanding)		391	19,433	(391)	19,433
Additional paid-in capital	11,207	6,984		(18,191)	
Retained earnings	8,740	1,496	15,201	(10,229)	15,208
Accumulated other changes in equity from nonowner sources	1,532	592	1,657	(2,124)	1,657
Treasury stock, at cost (169.1 shares)			(8,219)		(8,219)
Total shareholders equity	21,479	9,463	28,153	(30,935)	28,160
Total liabilities and shareholders equity	$ 74,872	$ 34,824	$ 33,856	$ (30,935)	$ 112,617

(1) The Travelers Companies, Inc., excluding its subsidiaries.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At December 31, 2008

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale at fair value (including $8 subject to securities lending) (amortized cost $61,569)	$ 41,329	$ 19,635	$ 311	$	$ 61,275
Equity securities, at fair value (cost $461)	207	128	44		379
Real estate	2	825			827
Short-term securities	2,213	1,169	1,840		5,222
Other investments	1,987	897	151		3,035
Total investments	45,738	22,654	2,346		70,738
Cash	183	167			350
Investment income accrued	545	274	4		823
Premiums receivable	4,037	1,917			5,954
Reinsurance recoverables	9,417	4,815			14,232
Ceded unearned premiums	806	135			941
Deferred acquisition costs	1,506	268			1,774
Deferred tax asset	1,319	549	97		1,965
Contractholder receivables	4,726	1,624			6,350
Goodwill	2,412	954			3,366
Other intangible assets	386	302			688
Investment in subsidiaries			28,181	(28,181)	
Other assets	1,873	664	33		2,570
Total assets	$ 72,948	$ 34,323	$ 30,661	$ (28,181)	$ 109,751
Liabilities					
Claims and claim adjustment expense reserves	$ 35,810	$ 18,913	$	$	$ 54,723
Unearned premium reserves	7,609	3,348			10,957
Contractholder payables	4,726	1,624			6,350
Payables for reinsurance premiums	283	245			528
Debt	1,193	9	4,979		6,181
Other liabilities	4,033	1,297	363		5,693
Total liabilities	53,654	25,436	5,342		84,432
Shareholders equity					
			89		89

Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding)										
Common stock (1,750.0 shares authorized; 585.1 shares issued and outstanding)				392		19,242		(392)		19,242
Additional paid-in capital		11,054		7,141				(18,195)		
Retained earnings		8,328		1,628		13,314		(9,956)		13,314
Accumulated other changes in equity from nonowner sources		(88)		(274)		(900)		362		(900)
Treasury stock, at cost (128.8 shares)						(6,426)				(6,426)
Total shareholders equity		19,294		8,887		25,319		(28,181)		25,319
Total liabilities and shareholders equity	$	72,948	$	34,323	$	30,661	$	(28,181)	$	109,751

(1) The Travelers Companies, Inc., excluding its subsidiaries.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the nine months ended September 30, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,820	$ 623	$ 2,337	$ (2,443)	$ 2,337
Net adjustments to reconcile net income to net cash provided by operating activities	371	424	(101)	173	867
Net cash provided by operating activities	2,191	1,047	2,236	(2,270)	3,204
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	1,997	1,741	31		3,769
Proceeds from sales of investments:					
Fixed maturities	1,016	1,186	4		2,206
Equity securities	6	31			37
Other investments	164	53			217
Purchases of investments:					
Fixed maturities	(3,201)	(3,149)			(6,350)
Equity securities		(22)			(22)
Real estate		(12)			(12)
Other investments	(169)	(93)			(262)
Net sales (purchases) of short-term securities	(824)	(92)	(429)		(1,345)
Securities transactions in course of settlement	495	93			588
Other	(255)	(16)			(271)
Net cash used in investing activities	(771)	(280)	(394)		(1,445)
Cash flows from financing activities					
Payment of debt	(2)		(141)		(143)
Issuance of debt			494		494
Dividends paid to shareholders			(518)		(518)
Issuance of common stock employee share options			76		76
Treasury shares acquired share repurchase authorization			(1,720)		(1,720)
Treasury shares acquired net employee share-based compensation			(29)		(29)
			4		4

Excess tax benefits from share-based payment arrangements					
Dividends paid to parent company	(1,456)	(814)		2,270	
Net cash used in financing activities	(1,458)	(814)	(1,834)	2,270	(1,836)
Effect of exchange rate changes on cash		13			13
Net increase (decrease) in cash	(38)	(34)	8		(64)
Cash at beginning of period	183	167			350
Cash at end of period	$ 145	$ 133	$ 8	$	$ 286
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 600	$ 154	$ (181)	$	$ 573
Interest paid	$ 65	$	$ 183	$	$ 248

(1) The Travelers Companies, Inc., excluding its subsidiaries.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the nine months ended September 30, 2008

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,534	$ 791	$ 2,123	$ (2,325)	$ 2,123
Net adjustments to reconcile net income to net cash provided by operating activities	418	(5)	450	(413)	450
Net cash provided by operating activities	1,952	786	2,573	(2,738)	2,573
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	1,990	1,657	23		3,670
Proceeds from sales of investments:					
Fixed maturities	2,157	1,417	14		3,588
Equity securities	25	22			47
Real estate		25			25
Other investments	369	178			547
Purchases of investments:					
Fixed maturities	(3,815)	(2,820)			(6,635)
Equity securities	(28)	(60)	(1)		(89)
Real estate		(31)			(31)
Other investments	(309)	(218)			(527)
Net (purchases) sales of short-term securities	5	643	(588)		60
Securities transactions in the course of settlement	(203)	(193)	9		(387)
Other	(266)	(1)			(267)
Net cash provided by (used in) investing activities	(75)	619	(543)		1
Cash flows from financing activities					
Payment of debt	(403)				(403)
Issuance of debt			496		496
Dividends paid to shareholders			(536)		(536)
Issuance of common stock employee share options			72		72
Treasury stock acquired share repurchase authorization			(2,055)		(2,055)

Treasury stock acquired net employee share-based compensation			(28)		(28)
Excess tax benefits from share-based payment arrangements			8		8
Dividends paid to parent company	(1,500)	(1,100)		2,600	
Capital contributions and loans between subsidiaries		(138)		138	
Net cash used in financing activities	(1,903)	(1,238)	(2,043)	2,738	(2,446)
Effect of exchange rate changes on cash		(12)			(12)
Net increase (decrease) in cash	(26)	155	(13)		116
Cash at beginning of period	202	55	14		271
Cash at end of period	$ 176	$ 210	$ 1	$	$ 387
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 712	$ 348	$ (228)	$	$ 832
Interest paid	$ 73	$	$ 175	$	$ 248

(1) The Travelers Companies, Inc., excluding its subsidiaries.

Table of Contents

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the financial condition and results of operations of The Travelers Companies, Inc. (together with its subsidiaries, the Company).

FINANCIAL HIGHLIGHTS

2009 Third Quarter Consolidated Results of Operations

- Net income of $935 million, or $1.66 per share basic and $1.65 per share diluted
- Net earned premiums of $5.42 billion
- GAAP combined ratio of 89.7%
- Net favorable prior year reserve development of $309 million pretax ($202 million after-tax)
- Catastrophe losses of $158 million pretax ($103 million after-tax)
- Net investment income of $763 million pretax ($616 million after-tax)

2009 Third Quarter Consolidated Financial Condition

- Total assets of $112.62 billion
- Total investments of $76.12 billion; fixed maturities and short-term securities comprise 94% of total investments
- Repurchased 20.8 million common shares for total cost of approximately $1.00 billion under the share repurchase authorization; additional $6 billion share repurchase authorization approved by board of directors in October 2009
- Shareholders equity of $28.16 billion; book value per common share of $51.24
- Holding company liquidity of $2.56 billion

CONSOLIDATED OVERVIEW

The Company provides a wide range of property and casualty insurance products and services to businesses, government units, associations and individuals, primarily in the United States and in selected international markets.

Consolidated Results of Operations

(in millions, except ratio and per share amounts)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues				
Premiums	**$ 5,421**	$ 5,448	**$ 16,075**	$ 16,145
Net investment income	**763**	716	**1,963**	2,309
Fee income	**72**	120	**234**	315
Net realized investment gains (losses)	**29**	(170)	**(172)**	(196)
Other revenues	**42**	31	**124**	99
Total revenues	**6,327**	6,145	**18,224**	18,672
Claims and expenses				
Claims and claim adjustment expenses	**3,123**	3,871	**9,648**	9,984
Amortization of deferred acquisition costs	**967**	990	**2,864**	2,905
General and administrative expenses	**889**	1,001	**2,510**	2,718
Interest expense	**98**	95	**284**	276
Total claims and expenses	**5,077**	5,957	**15,306**	15,883
Income before income taxes	**1,250**	188	**2,918**	2,789
Income tax expense (benefit)	**315**	(26)	**581**	666
Net income	**$ 935**	$ 214	**$ 2,337**	$ 2,123
Net income per share				
Basic	**$ 1.66**	$ 0.36	**$ 4.05**	$ 3.51
Diluted	**$ 1.65**	$ 0.36	**$ 4.02**	$ 3.47
GAAP combined ratio				
Loss and loss adjustment expense ratio	**57.0%**	69.9%	**59.4%**	60.9%
Underwriting expense ratio	**32.7**	34.8	**31.8**	33.1
GAAP combined ratio	**89.7%**	104.7%	**91.2%**	94.0%
Incremental impact of direct to consumer initiative on GAAP combined ratio	**0.6%**	0.2%	**0.6%**	0.2%

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

Overview

Net income in the third quarter of 2009 totaled $935 million, $721 million higher than net income of $214 million in the same period of 2008, primarily driven by a decline in the cost of catastrophes. In addition, the increase in net income in the third quarter of 2009 reflected net realized investment gains (versus net realized investment losses in the third quarter of 2008) and an increase in net investment income, partially offset by reduced underwriting margins related to pricing and loss cost trends and a decline in fee income. The cost of catastrophes (net of reinsurance) in the third quarter of 2009 totaled $158 million, compared with $1.04 billion in the same period of 2008, which also included hurricane-related assessments and reinstatement premiums. Net favorable prior year reserve development totaled $309 million in the third quarter of 2009, compared with $334 million in the same period of 2008.

Table of Contents

Net income of $2.34 billion in the first nine months of 2009 was 10% higher than the comparable 2008 net income of $2.12 billion. This increase was driven by the decline in the cost of catastrophes, partially offset by declines in net favorable prior year reserve development, net investment income, underwriting margins and fee income. The cost of catastrophes in the first nine months of 2009 totaled $441 million, compared with $1.49 billion in the same period of 2008. Net favorable prior year reserve development totaled $828 million in the first nine months of 2009, compared with $1.26 billion in the same period of 2008. Net income in the first and second quarters of 2009 benefited from $87 million of reductions in the estimate of property windpool assessments related to Hurricane Ike that had been recorded as a component of the cost of catastrophes in general and administrative expenses in the third quarter of 2008. Net income in the first nine months of 2009 also included a net benefit of $88 million due to the favorable resolution of various prior year federal and state tax matters.

Hurricane-related property windpool assessments are levied on insurers periodically by state-created insurance and windstorm insurance entities such as Citizens Property Insurance Corporation in Florida, Louisiana Citizens Property Insurance Corporation and the Texas Windstorm Insurance Association. These assessments are levied on the insurers writing business in those states to fund the operating deficits of such entities during periods of significant storm activity. Hurricane-related assessments are reported as a component of General and Administrative Expenses as the amounts paid to such entities are not insured losses of the Company.

Revenues

Earned Premiums

Earned premiums in the third quarter of 2009 totaled $5.42 billion, a decrease of $27 million, or less than 1%, from the same 2008 period. In the first nine months of 2009, earned premiums of $16.08 billion were $70 million, or less than 1%, lower than the same 2008 period. Earned premiums in the third quarter and first nine months of 2008 were each reduced by $8 million of reinstatement premiums related to catastrophe losses incurred. Reinstatement premiums represent additional premiums payable to reinsurers to maintain coverage limits for certain excess-of-loss reinsurance treaties. In the Business Insurance segment, earned premiums in the third quarter and first nine months of 2009 declined 2% and 1% from the same periods of 2008, respectively, despite strong business retention levels, primarily reflecting the impact of the economic downturn, including premium refunds and mid-term policy cancellations resulting from lower levels of economic activity in the preceding twelve months. In the Financial, Professional & International Insurance segment, earned premiums in the third quarter of 2009 were level with the same period of 2008, and earned premiums in the first nine months of 2009 declined 3% compared with same period of 2008 due to the unfavorable impact of foreign currency exchange rates. Adjusting for the impact of exchange rates, earned premiums in this segment in the third quarter and first nine months of 2009 increased 3% and 1% over the same periods of 2008, respectively. In the Personal Insurance segment, earned premium growth of 2% over the third quarter and first nine months of 2008 reflected continued strong business retention rates and continued renewal premium increases.

Net Investment Income

The following table sets forth information regarding the Company s investments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in millions)	**2009**	**2008**	**2009**	**2008**

Average investments (a)	**$ 73,515**	$ 74,256	**$ 72,991**	$ 74,426
Pretax net investment income	**763**	716	**1,963**	2,309
After-tax net investment income	**616**	587	**1,637**	1,861
Average pretax yield (b)	**4.2%**	3.9%	**3.6%**	4.1%
Average after-tax yield (b)	**3.4%**	3.2%	**3.0%**	3.3%

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

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