

TRAVELERS COMPANIES, INC.

Form 10-Q

October 22, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from _____ to _____

Commission file number 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-0518860
(I.R.S. Employer
Identification No.)

385 Washington Street

St. Paul, MN 55102

(Address of principal executive offices) (Zip Code)

(651) 310-7911

(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 No

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 (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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The number of shares of the Registrant's Common Stock, without par value, outstanding at October 17, 2008 was 584,522,765.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended September 30, 2008

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(in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues				
Premiums	\$ 5,448	\$ 5,416	\$ 16,145	\$ 16,038
Net investment income	716	929	2,309	2,879
Fee income	120	148	315	395
Net realized investment gains (losses)	(170)		(196)	142
Other revenues	31	33	99	72
Total revenues	6,145	6,526	18,672	19,526
Claims and expenses				
Claims and claim adjustment expenses	3,871	2,985	9,984	9,270
Amortization of deferred acquisition costs	990	956	2,905	2,740
General and administrative expenses	1,001	817	2,718	2,486
Interest expense	95	94	276	255
Total claims and expenses	5,957	4,852	15,883	14,751
Income before income taxes	188	1,674	2,789	4,775
Income tax expense (benefit)	(26)	476	666	1,237
Net income	\$ 214	\$ 1,198	\$ 2,123	\$ 3,538
Net income per share				
Basic	\$ 0.36	\$ 1.85	\$ 3.53	\$ 5.36
Diluted	\$ 0.36	\$ 1.81	\$ 3.47	\$ 5.22
Weighted average number of common shares outstanding				
Basic	587.5	648.4	600.7	658.9
Diluted	598.0	661.9	612.3	680.3

See notes to consolidated financial statements (unaudited).

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET**

(in millions)

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Fixed maturities, available for sale at fair value (including \$15 and \$1,988 subject to securities lending) (amortized cost \$62,897 and \$64,152)	\$ 61,491	\$ 64,920
Equity securities, at fair value (cost \$472 and \$473)	447	488
Real estate	830	850
Short-term securities	5,124	5,186
Other investments	3,307	3,374
Total investments	71,199	74,818
Cash	387	271
Investment income accrued	830	861
Premiums receivable	6,189	6,142
Reinsurance recoverables	15,108	15,641
Ceded unearned premiums	1,169	1,123
Deferred acquisition costs	1,854	1,809
Deferred tax asset	1,952	1,207
Contractholder receivables	6,877	6,696
Goodwill	3,366	3,366
Other intangible assets	716	814
Other assets	3,048	2,476
Total assets	\$ 112,695	\$ 115,224
Liabilities		
Claims and claim adjustment expense reserves	\$ 57,027	\$ 57,700
Unearned premium reserves	11,377	11,227
Contractholder payables	6,877	6,696
Payables for reinsurance premiums	766	618
Debt	6,331	6,242
Other liabilities	5,596	6,125
Total liabilities	87,974	88,608
Shareholders equity		
Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding at both dates)	92	112
Common stock (1,750.0 shares authorized; 587.2 and 627.8 shares issued and outstanding)	19,196	18,990
Retained earnings	12,690	11,110
Accumulated other changes in equity from nonowner sources	(932)	670
Treasury stock, at cost (126.0 and 82.9 shares)	(6,325)	(4,266)
Total shareholders equity	24,721	26,616
Total liabilities and shareholders equity	\$ 112,695	\$ 115,224

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the nine months ended September 30,	2008	2007
Convertible preferred stock savings plan		
Balance, beginning of year	\$ 112	\$ 129
Redemptions during period	(20)	(14)
Balance, end of period	92	115
Common stock		
Balance, beginning of year	18,990	18,530
Employee share-based compensation	96	219
Compensation amortization under share-based plans and other changes	110	131
Conversion of convertible notes		36
Balance, end of period	19,196	18,916
Retained earnings		
Balance, beginning of year	11,110	7,253
Net income	2,123	3,538
Dividends	(538)	(557)
Other	(5)	1
Balance, end of period	12,690	10,235
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	670	452
Change in net unrealized gain on investment securities	(1,438)	(231)
Net change in unrealized foreign currency translation and other changes	(164)	74
Balance, end of period	(932)	295
Treasury stock (at cost)		
Balance, beginning of year	(4,266)	(1,229)
Treasury shares acquired share repurchase authorization	(2,022)	(1,947)
Net shares acquired related to employee share-based compensation plans	(37)	(78)
Balance, end of period	(6,325)	(3,254)
Total common shareholders equity	24,629	26,192
Total shareholders equity	\$ 24,721	\$ 26,307
Common shares outstanding		
Balance, beginning of year	627.8	678.3
Shares acquired share repurchase authorization	(42.3)	(37.0)
Net shares issued under employee share-based compensation plans	1.7	4.1
Shares issued pursuant to conversion of convertible notes		0.7
Balance, end of period	587.2	646.1
Summary of changes in equity from nonowner sources		
Net income	\$ 2,123	\$ 3,538
Other changes in equity from nonowner sources, net of tax	(1,602)	(157)
Total changes in equity from nonowner sources	\$ 521	\$ 3,381

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,	2008	2007
Cash flows from operating activities		
Net income	\$ 2,123	\$ 3,538
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment (gains) losses	196	(142)
Depreciation and amortization	627	605
Deferred federal income tax expense	49	249
Amortization of deferred policy acquisition costs	2,905	2,740
Equity in income from other investments	34	(489)
Premiums receivable	(47)	(135)
Reinsurance recoverables	533	1,694
Deferred acquisition costs	(2,950)	(2,988)
Claims and claim adjustment expense reserves	(673)	(1,074)
Unearned premium reserves	150	363
Trading account activities	5	(3)
Loss on redemption of subordinated debentures		32
Excess tax benefits from share-based payment arrangements	(8)	(23)
Other	(371)	(428)
Net cash provided by operating activities	2,573	3,939
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	3,670	3,957
Proceeds from sales of investments:		
Fixed maturities	3,588	3,681
Equity securities	61	77
Real estate	25	10
Other investments	547	1,153
Purchases of investments:		
Fixed maturities	(6,635)	(9,686)
Equity securities	(103)	(63)
Real estate	(31)	(69)
Other investments	(527)	(562)
Net (purchases) sales of short-term securities	60	(64)
Securities transactions in course of settlement	(387)	(331)
Other	(267)	(292)
Net cash provided by (used in) investing activities	1	(2,189)
Cash flows from financing activities		
Issuance of debt	496	2,461
Payment of debt	(403)	(1,956)
Dividends paid to shareholders	(536)	(557)
Issuance of common stock employee share options	72	192
Treasury stock acquired share repurchase authorization	(2,055)	(1,947)
Treasury stock acquired net employee share-based compensation	(28)	(39)
Excess tax benefits from share-based payment arrangements	8	23
Other		1
Net cash used in financing activities	(2,446)	(1,822)

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Effect of exchange rate changes on cash		(12)		4
Net increase (decrease) in cash		116		(68)
Cash at beginning of period		271		459
Cash at end of period	\$	387	\$	391
Supplemental disclosure of cash flow information				
Income taxes paid	\$	832	\$	935
Interest paid	\$	248	\$	240

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company's management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 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 2007 Annual Report on Form 10-K.

The preparation of the 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. All material intercompany transactions and balances have been eliminated.

Adoption of New Accounting Standards

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board (FASB) issued, in July 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48) and, in May 2007, FASB Staff Position (FSP) FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1). FIN 48 is intended to clarify the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Under FIN 48, evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be

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recognized in the financial statements. A tax position that meets the more-likely-than-not recognition threshold shall initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met.

The adoption of FIN 48 at January 1, 2007 and FSP FIN 48-1 at June 30, 2007 did not have a material effect on the Company's results of operations, financial position or liquidity.

The total amount of unrecognized tax benefits at January 1, 2007 was \$339 million. Included in that balance were \$101 million of unrecognized tax benefits that, if recognized, would affect the annual effective tax rate and \$175 million of unrecognized tax benefits for which the ultimate deductibility is certain, but for which there is uncertainty about the timing of deductibility. Because of the impact of deferred tax accounting, the timing of such deductibility would not affect the annual effective tax rate other than for interest and penalties. The balance of unrecognized tax benefits at January 1, 2007 was comprised of \$63 million of unrecognized tax benefits that, if recognized, would reduce goodwill.

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes. The Company had approximately \$35 million for the payment of interest accrued at January 1, 2007.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. It applies to other pronouncements that require or permit fair value but does not require any new fair value measurements. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FAS 157 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets. The highest possible level should be used to measure fair value. FAS 157 is effective for fiscal years beginning after November 15, 2007.

In February 2008, FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), which permits a one-year deferral of the application of FASB Statement No. 157, *Fair Value Measurements*, 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 Company adopted FAS 157 and FSP FAS 157-2 effective January 1, 2008. Accordingly, the provisions of FAS 157 were not applied to goodwill and other intangible assets held by the Company and measured annually for impairment testing purposes only. The adoption of FAS 157, for all other assets and liabilities held by the Company, did not have a material effect on the Company's results of operations, financial position or liquidity. The Company will adopt FAS 157 for non-financial assets and non-financial liabilities on January 1, 2009 and does not expect the provisions to have a material effect on its results of operations, financial position or liquidity.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market For That Asset Is Not Active* (FSP FAS 157-3), with an immediate effective date, including prior periods for which financial statements have not been issued. FSP FAS 157-3 amends FAS 157 to clarify the application of fair value in inactive markets and allows for the use of management's internal assumptions about future cash flows with appropriately risk-adjusted discount rates when relevant observable market data does not exist. The objective of FAS 157 has not changed and continues to be the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The adoption of FSP FAS 157-3 in the third quarter did not have a material effect on the Company's results of operations, financial position or liquidity.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (FAS 159). FAS 159 permits an entity to irrevocably elect fair value on a contract-by-contract basis for new assets or liabilities within the scope of FAS 159 as the initial and subsequent measurement attribute for those financial assets and liabilities and certain other items including property and casualty insurance contracts. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense up-front costs and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position the fair value of assets and liabilities for which the fair value option has been elected, and similar assets and liabilities measured using another measurement attribute. An entity can accomplish this by either reporting the fair value and non-fair-value carrying amounts as separate line items or aggregating those amounts and disclosing parenthetically the amount of fair value included in the aggregate amount.

FAS 159 is effective for fiscal years beginning after November 15, 2007. Upon adoption, an entity is permitted to elect the fair value option irrevocably for any existing asset or liability within the scope of the standard. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. Retrospective application would not be permitted. The Company did not elect the fair value option for assets and liabilities currently held upon its adoption of FAS 159 effective January 1, 2008. Therefore, FAS 159 did not have an impact on the Company's results of operations, financial position or liquidity.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

Collateral Assignment Split-Dollar Life Insurance Arrangements

In March 2007, the FASB issued Emerging Issues Task Force Issue No. 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10). EITF 06-10 provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-10 effective January 1, 2008 did not have a material effect on the Company's results of operations, financial position or liquidity.

Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards

In June 2007, the FASB issued Emerging Issues Task Force Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). EITF 06-11 requires that realized income tax benefits related to dividend payments that are charged to retained earnings and paid to employees holding equity shares, nonvested equity share units and outstanding equity share options should be recognized as an increase in additional paid-in capital. EITF 06-11 shall be applied to share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The adoption of EITF 06-11 effective January 1, 2008 did not have a material effect on the Company's results of operations, financial position or liquidity.

Accounting Standards Not Yet Adopted

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (FAS 161). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities and specifically 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 FAS 161 are effective for financial statements issued for fiscal years beginning after November 15, 2008.

Business Combinations

In December 2007, the FASB issued Revised Statement of Financial Accounting Standards No. 141R, *Business Combinations* (FAS 141R), a replacement of FAS 141, *Business Combinations* (FAS 141). FAS 141R provides revised guidance on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. In addition, it provides revised guidance on the recognition and measurement of goodwill acquired in the business combination.

FAS 141R also provides guidance specific to the recognition, classification, and measurement of assets and liabilities related to insurance and reinsurance contracts acquired in a business combination.

FAS 141R applies to business combinations for acquisitions occurring on or after January 1, 2009. Accordingly, FAS 141R does not impact the Company's previous transactions involving purchase accounting.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an Amendment of Accounting Research Bulletin No. 51* (FAS 160). FAS 160 amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest 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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

FAS 160 is 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 Company does not expect the provisions of FAS 160 to have a material effect on its results of operations, financial position or liquidity.

Participating Securities Granted in Share-Based Payment Transactions

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This FSP 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 described in FAS 128, *Earnings per Share*. The FSP redefines participating securities 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 would be considered participating securities subject to the two-class method in computing EPS rather than the treasury stock method.

The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and for interim periods within those years. All prior-period EPS data presented is to be adjusted retrospectively to conform to the provisions of this FSP. Early application is not permitted.

The Company has not yet determined the impact, if any, that FSP EITF 03-6-1 will have on its computation and presentation of EPS.

Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*. The FSP amends the factors that an entity should consider in determining the useful life of a recognized intangible asset under FAS 142, *Goodwill and Other Intangible Assets*, 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 amendment 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 asset using the market participant's perceived value. The FSP also requires disclosure in addition to that already required by FAS 142.

The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years. Early adoption is prohibited. The requirements for determining the useful life of intangible assets apply to intangible assets acquired after January 1, 2009. The disclosure requirements will be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

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 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 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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

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

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, 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 March 2007, the Company completed the sale of its Mexican surety subsidiary, Afianzadora Insurgentes, S.A. de C.V., which accounted for \$0 million and \$25 million of net written premiums in the third quarter and first nine months of 2007, respectively. The impact of this transaction was not material to the Company's results of operations or financial position.

Personal Insurance

The Personal Insurance segment offers 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.

In April 2007, the Company completed the sale of its subsidiary, Mendota Insurance Company, and its wholly-owned subsidiaries, Mendakota Insurance Company and Mendota Insurance Agency, Inc. These subsidiaries primarily offered nonstandard automobile coverage and accounted for \$0 and \$49 million of net written premiums in the third quarter and first nine months of 2007, respectively. The impact of this transaction was not material to the Company's results of operations or financial position.

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The following table summarizes the components of the Company's revenues and operating income (loss) by reportable business segments:

(for the three months ended September 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
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
2007				
Premiums	\$ 2,850	\$ 854	\$ 1,712	\$ 5,416
Net investment income	664	126	139	929
Fee income	148			148
Other revenues	1	5	23	29
Total operating revenues (1)	\$ 3,663	\$ 985	\$ 1,874	\$ 6,522
Operating income (1)	\$ 803	\$ 183	\$ 276	\$ 1,262
(for the nine months ended September 30, in millions)				
	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
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
2007				
Premiums	\$ 8,415	\$ 2,542	\$ 5,081	\$ 16,038
Net investment income	2,075	372	432	2,879
Fee income	395			395
Other revenues	15	16	68	99
Total operating revenues (1)	\$ 10,900	\$ 2,930	\$ 5,581	\$ 19,411

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Operating income (1)	\$	2,286	\$	491	\$	818	\$	3,595
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(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).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue reconciliation				
Earned premiums:				
Business Insurance:				
Commercial multi-peril	\$ 750	\$ 780	\$ 2,254	\$ 2,310
Workers compensation	607	562	1,776	1,644
Commercial automobile	496	508	1,482	1,524
Property	468	499	1,414	1,479
General liability	499	495	1,457	1,422
Other	3	6	7	36
Total Business Insurance	2,823	2,850	8,390	8,415
Financial, Professional & International Insurance:				
General liability	226	237	676	721
Fidelity and surety	301	275	869	813
International	301	310	918	910
Other	35	32	99	98
Total Financial, Professional & International Insurance	863	854	2,562	2,542
Personal Insurance:				
Automobile	937	920	2,767	2,771
Homeowners and other	825	792	2,426	2,310
Total Personal Insurance	1,762	1,712	5,193	5,081
Total earned premiums	5,448	5,416	16,145	16,038
Net investment income	716	929	2,309	2,879
Fee income	120	148	315	395
Other revenues	31	29	97	99
Total operating revenues for reportable segments	6,315	6,522	18,866	19,411
Interest Expense and Other		4	2	(27)
Net realized investment gains (losses)	(170)		(196)	142
Total consolidated revenues	\$ 6,145	\$ 6,526	\$ 18,672	\$ 19,526

Income reconciliation, net of tax

Total operating income for reportable segments	\$	397	\$	1,262	\$	2,453	\$	3,595
Interest Expense and Other (1)		(67)		(64)		(197)		(152)
Total operating income		330		1,198		2,256		3,443
Net realized investment gains (losses)		(116)				(133)		95
Total consolidated net income	\$	214	\$	1,198	\$	2,123	\$	3,538

(1) The primary component of Interest Expense and Other was after-tax interest expense of \$61 million and \$178 million for the three months and nine months ended September 30 2008, respectively, and \$60 million and \$165 million for the three months and nine months ended September 30, 2007, respectively. The year-to-date 2007 total also included a benefit of \$52 million from the favorable resolution of various prior year federal tax matters, and an after-tax loss of \$25 million related to the Company's redemption of its 4.50% contingently convertible debentures.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)	September 30, 2008	December 31, 2007
Asset reconciliation:		
Business Insurance	\$ 84,845	\$ 87,160
Financial, Professional & International Insurance	13,824	14,099
Personal Insurance	13,232	13,300
Total assets for reportable segments	111,901	114,559
Other assets (1)	794	665
Total consolidated assets	\$ 112,695	\$ 115,224

(1) The primary components of other assets at September 30, 2008 were other intangible assets, property and equipment, accrued over-funded benefit plan assets and deferred taxes. The primary components of other assets at December 31, 2007 were other intangible assets, property and equipment 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, 2008, in millions)	Amortized Cost	Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	\$ 1,850	\$ 85	\$	\$ 1,935
Obligations of states, municipalities and political subdivisions	38,579	310	1,007	37,882
Debt securities issued by foreign governments	1,498	20	3	1,515
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	6,457	56	229	6,284
All other corporate bonds	14,422	59	691	13,790

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Redeemable preferred stock		91		4		10		85
Total	\$	62,897	\$	534	\$	1,940	\$	61,491

(at December 31, 2007, in millions)	Amortized Cost	Gains	Gross Unrealized Losses		Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	\$ 2,092	\$ 58	\$	\$	2,150
Obligations of states, municipalities and political subdivisions	38,111	751	40		38,822
Debt securities issued by foreign governments	1,629	11	5		1,635
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	7,108	73	65		7,116
All other corporate bonds	15,120	169	194		15,095
Redeemable preferred stock	92	12	2		102
Total	\$ 64,152	\$ 1,074	\$ 306	\$	64,920

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

The Company engages in securities lending activities from which it generates net investment income from the lending of certain of its investments to other institutions for short periods of time. Borrowers of these securities provide collateral equal to at least 102% of the market value of the loaned securities plus accrued interest. This collateral is held by a third-party custodian, and the Company has the right to access the collateral only in the event that the institution borrowing the Company's securities is in default under the lending agreement. Therefore, the Company does not recognize the receipt of the collateral held by the third-party custodian or the obligation to return the collateral. The loaned securities remain a recorded asset of the Company.

During the quarter ended September 30, 2008 the Company changed its securities lending requirements in light of the recent market conditions to accept only cash as collateral for securities on loan and restricted the manner in which that cash was invested. These actions resulted in a significant reduction in the amount of securities on loan. At September 30, 2008, the Company had \$15 million of securities on loan to others, compared with \$1.99 billion at December 31, 2007. The Company has not incurred any investment losses in its securities lending program in the periods presented.

Equity Securities

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

(at September 30, 2008, in millions)	Cost	Gains	Gross Unrealized		Losses	Fair Value
Common stock	\$ 189	\$ 10	\$		13	\$ 186
Non-redeemable preferred stock	283	7			29	261
Total	\$ 472	\$ 17	\$		42	\$ 447

(at December 31, 2007, in millions)	Cost	Gains	Gross Unrealized		Losses	Fair Value
Common stock	\$ 160	\$ 24	\$		1	\$ 183
Non-redeemable preferred stock	313	8			16	305
Total	\$ 473	\$ 32	\$		17	\$ 488

Short-term Investments

At December 31, 2007, short-term investments held in escrow in accordance with the terms of the ACandS, Inc. (ACandS) settlement had a fair value of \$454 million. During the third quarter of 2008, all contingencies related to the settlement agreement were fulfilled, and the investments held in escrow were released to the trust created under ACandS's plan of reorganization. See note 12.

Variable Interest Entities (VIEs)

The following entities are consolidated:

- **Municipal Trusts** The Company owns interests in various municipal trusts that were formed for the purpose of allowing more flexibility to generate investment income in a manner consistent with the Company's investment objectives and tax position. At September 30, 2008 and December 31, 2007, there were 25 and 31 such trusts, respectively, which held a combined total of \$288 million and \$355 million, respectively, in municipal securities, of which \$35 million and \$44 million, respectively, were owned by outside investors. The net carrying value of the trusts owned by the Company at September 30, 2008 and December 31, 2007 was \$253 million and \$311 million, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

The Company has a significant interest in the following VIE, which is not consolidated because the Company is not considered to be the primary beneficiary:

- The Company has a significant variable interest in Camperdown UK Limited, which The St. Paul Companies, Inc. (SPC) sold in December 2003. The Company's variable interest resulted from an agreement to indemnify the purchaser in the event a specified reserve deficiency develops, a reserve-related foreign exchange impact occurs or a foreign tax adjustment is imposed on a pre-sale reporting period. The maximum amount of this indemnification obligation is \$150 million. The carrying value of this obligation at September 30, 2008 and December 31, 2007 was \$32 million and \$59 million, respectively. See the Guarantees section of note 12.

The Company has other significant interests in VIEs, including private equity funds and real estate entities. Neither the carrying amounts nor the unfunded commitments related to these entities are material.

The following securities are not consolidated:

- Mandatorily redeemable preferred securities of trusts holding solely the subordinated debentures of the Company. These securities were issued by three separate trusts that were established for the sole purpose of issuing the securities to investors and are fully guaranteed by the Company. The subordinated debt that the Company issued to these trusts is included in the Debt section of liabilities on the Company's consolidated balance sheet. That debt had a carrying value of \$310 million at September 30, 2008 and December 31, 2007.

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at September 30, 2008 and December 31, 2007, the aggregate fair value and gross unrealized losses by length of time those securities have been continuously in an unrealized loss position.

(at September 30, 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	\$ 28	\$	\$	\$	\$ 28	\$
Obligations of states, municipalities and political subdivisions	21,088	836	1,646	171	22,734	1,007
Debt securities issued by foreign governments	155	1	84	2	239	3
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	3,233	177	1,065	52	4,298	229
All other corporate bonds	7,341	398	2,665	293	10,006	691
Redeemable preferred stock	15	7	13	3	28	10
Total fixed maturities	31,860	1,419	5,473	521	37,333	1,940
Equity securities						
Common stock	53	13			53	13
Non-redeemable preferred stock	71	17	84	12	155	29
Total equity securities	124	30	84	12	208	42
Total	\$ 31,984	\$ 1,449	\$ 5,557	\$ 533	\$ 37,541	\$ 1,982

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at December 31, 2007, 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	\$ 29	\$	\$ 69	\$	\$ 98	\$
Obligations of states, municipalities and political subdivisions	3,428	23	2,044	17	5,472	40
Debt securities issued by foreign governments	409	1	384	4	793	5
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	838	5	3,118	60	3,956	65
All other corporate bonds	2,646	55	5,797	139	8,443	194
Redeemable preferred stock	19	1	8	1	27	2
Total fixed maturities	7,369	85	11,420	221	18,789	306
Equity securities						
Common stock	29	1			29	1
Non-redeemable preferred stock	110	9	80	7	190	16
Total equity securities	139	10	80	7	219	17
Total	\$ 7,508	\$ 95	\$ 11,500	\$ 228	\$ 19,008	\$ 323

Impairment charges included in net realized investment gains (losses) were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Fixed maturities	\$ 125	\$ 9	\$ 163	\$ 17
Equity securities	30	1	47	4
Other investments	1	4	12	11
Total	\$ 156	\$ 14	\$ 222	\$ 32

4. FAIR VALUE MEASUREMENTS

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in FAS 157. 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 FAS 157 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:

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

- 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 assumptions that market participants would use.

Valuation of Investments

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 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. The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value.

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.

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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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

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 are 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.

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

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 estimate in the amount disclosed in Level 2.

The Company holds investments in non-public common and preferred stocks (private equities), with a fair value estimate of \$251 million, 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. The Company holds one private common stock with a fair value estimate of \$184 million at September 30, 2008, for which the estimate of fair value is provided by a third party appraiser on behalf of the investee and adjusted for a liquidity discount which takes into consideration the restriction on the common stock. 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, 2008 in the amount disclosed in Level 3.

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 less than \$1 million at September 30, 2008 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 \$78 million at September 30, 2008 in the amount disclosed in Level 3. The Company bifurcates 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, 2008.

(in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities	\$ 61,491	\$ 2,130	\$ 59,179	\$ 182
Equity securities	447	435	12	
Other investments	383	54		329
Total	\$ 62,321	\$ 2,619	\$ 59,191	\$ 511
Other liabilities	\$	\$	\$	\$

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

(in millions)	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Balance at beginning of period	\$ 518	\$ 511
Total realized and unrealized gains or (losses):		
Included in realized investment gains and (losses)	11	1
Included in increases or (decreases) in accumulated other changes in equity from nonowner sources	(13)	(18)
Purchases, (sales), issuances and settlements	(5)	(12)
Transfers in and/or (out) of Level 3		29
Balance at September 30, 2008	\$ 511	\$ 511
Amount of total gains or (losses) for the period included in earnings attributable to changes in the fair value of assets still held at the reporting date		
	\$ 11	\$

The Company had no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the three months or nine months ended September 30, 2008.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company's goodwill by segment at September 30, 2008 and December 31, 2007:

(in millions)	September 30, 2008	December 31, 2007
Business Insurance	\$ 2,168	\$ 2,168
Financial, Professional & International Insurance	556	555
Personal Insurance	613	613
Other	29	30
Total	\$ 3,366	\$ 3,366

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

Other Intangible Assets

The following tables present a summary of the Company's other intangible assets by major asset class at September 30, 2008 and December 31, 2007:

(at September 30, 2008, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	\$ 1,036	\$ 730	\$ 306
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	191	(3)	194
Total intangible assets subject to amortization	1,227	727	500
Intangible assets not subject to amortization	216		216
Total other intangible assets	\$ 1,443	\$ 727	\$ 716

(at December 31, 2007, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	\$ 1,036	\$ 655	\$ 381
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	191	(26)	217
Total intangible assets subject to amortization	1,227	629	598
Intangible assets not subject to amortization	216		216
Total other intangible assets	\$ 1,443	\$ 629	\$ 814

- (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.

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

Three Months Ended September 30,	Nine Months Ended September 30,
-------------------------------------	------------------------------------

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(in millions)	2008	2007	2008	2007
Customer-related	\$ 23	\$ 29	\$ 75	\$ 91
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	8	8	23	21
Total amortization expense	\$ 31	\$ 37	\$ 98	\$ 112

Intangible asset amortization expense is estimated to be \$28 million for the remainder of 2008, \$100 million in 2009, \$86 million in 2010, \$69 million in 2011 and \$52 million in 2012.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****6. DEBT**

Maturity of Senior Notes. On March 15, 2008, the Company's \$400 million, 3.75% senior notes matured and were fully paid.

Senior Debt Issuance. On May 13, 2008, the Company issued \$500 million aggregate principal amount of 5.80% senior notes that will mature on May 15, 2018. The net proceeds of the issuance, after original issuance discount and the deduction of underwriting expenses and commissions and other expenses, totaled approximately \$496 million. Interest on the senior notes is payable semi-annually on May 15 and November 15, commencing November 15, 2008. 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 plus 30 basis points for the senior notes.

7. SHARE REPURCHASE AUTHORIZATION

In January 2008, the board of directors authorized an additional \$5 billion for 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, 2008, the Company repurchased 6.2 million and 42.3 million shares, respectively, under its share repurchase authorization for a total cost of approximately \$272 million and \$2.02 billion, respectively. The average cost per share repurchased was \$43.89 and \$47.79, respectively. At September 30, 2008, the Company had \$3.91 billion of capacity remaining under the share repurchase authorization.

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,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 214	\$ 1,198	\$ 2,123	\$ 3,538
	(881)	485	(1,438)	(231)

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Change in net unrealized gain on
investment securities

Other changes	(130)	30	(164)	74
Total changes in equity from nonowner sources	\$ (797)	\$ 1,713	\$ 521	\$ 3,381

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****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.

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,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic				
Net income, as reported	\$ 214	\$ 1,198	\$ 2,123	\$ 3,538
Preferred stock dividends, net of taxes	(1)	(1)	(3)	(3)
Net income available to common shareholders basic	\$ 213	\$ 1,197	\$ 2,120	\$ 3,535
Diluted				
Net income available to common shareholders	\$ 213	\$ 1,197	\$ 2,120	\$ 3,535
Effect of dilutive securities:				
Convertible preferred stock	1	1	3	3
Zero coupon convertible notes	1	1	3	3
Convertible junior subordinated notes (1)				8
Net income available to common shareholders diluted	\$ 215	\$ 1,199	\$ 2,126	\$ 3,549
Common shares				
Basic				
Weighted average shares outstanding	587.5	648.4	600.7	658.9
Diluted				
Weighted average shares outstanding	587.5	648.4	600.7	658.9
Weighted average effects of dilutive securities:				
Stock options and other incentive plans	5.8	8.3	6.7	9.5
Convertible preferred stock	2.3	2.8	2.5	2.9
Zero coupon convertible notes	2.4	2.4	2.4	2.4
Convertible junior subordinated notes (1)				6.6
Total	598.0	661.9	612.3	680.3
Net Income per Common Share				
Basic	\$ 0.36	\$ 1.85	\$ 3.53	\$ 5.36
Diluted	\$ 0.36	\$ 1.81	\$ 3.47	\$ 5.22

(1) Redeemed in April 2007.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****10. SHARE-BASED INCENTIVE COMPENSATION**

The following presents information for fully vested stock option awards at September 30, 2008:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value (\$ in millions)
Vested at end of period (1)	28,929,976	\$ 44.86	3.58 years	\$ 92
Exercisable at end of period	26,012,813	\$ 44.77	3.10 years	\$ 87

(1) Represents awards for which the employees' rights to receive or retain the awards are not contingent on satisfaction of a service condition and, therefore, the requisite service has been rendered, including those that are retirement eligible.

The total compensation cost recognized in earnings for all share-based incentive compensation awards was \$31 million and \$31 million for the three months ended September 30, 2008 and 2007, respectively, and \$97 million and \$96 million for the nine months ended September 30, 2008 and 2007, respectively. The related tax benefit recognized in earnings was \$11 million and \$10 million for the three months ended September 30, 2008 and 2007, respectively, and \$33 million and \$32 million for the nine months ended September 30, 2008 and 2007, respectively. The impact of the change in accounting policy upon adoption of FAS 123R, *Share-Based Compensation*, for employees that met the requisite service conditions before the awards vesting date, generally retirement eligible employees, was not material for the three months and nine months ended September 30, 2008 and 2007.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at September 30, 2008 was \$140 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, 2007 was \$118 million, which was expected to be recognized over a weighted-average period of 1.7 years.

11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS**Components of Net Periodic Benefit Cost**

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The following tables summarize the components of net pension and postretirement benefit expense for the Company's plans recognized in the consolidated statement of income.

(for the three months ended September 30, in millions)	Pension Plans		Postretirement Benefit Plans	
	2008	2007	2008	2007
Net Periodic Benefit Cost:				
Service cost	\$ 19	\$ 17	\$	\$
Interest cost on benefit obligation	29	28	3	4
Expected return on plan assets	(43)	(38)		
Amortization of unrecognized:				
Prior service benefit	(1)	(1)		
Net actuarial loss (gain)	2	1		(1)
Net benefit expense	\$ 6	\$ 7	\$ 3	\$ 3

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued****11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS**

(for the nine months ended September 30, in millions)	Pension Plans		Postretirement Benefit Plans	
	2008	2007	2008	2007
Net Periodic Benefit Cost:				
Service cost	\$ 57	\$ 51	\$	\$ 1
Interest cost on benefit obligation	88	83	11	12
Expected return on plan assets	(119)	(112)	(1)	(1)
Amortization of unrecognized:				
Prior service benefit	(4)	(4)		
Net actuarial loss (gain)	6	3	(2)	(2)
Net benefit expense	\$ 28	\$ 21	\$ 8	\$ 10

Employer Contributions

The Company previously disclosed in its Annual Report on Form 10-K for year ended December 31, 2007 that it had not yet determined whether or not additional pension plan funding would be made during the 2008 fiscal year. The Company made a contribution of \$250 million to its pension plan in September 2008.

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 the Company's property is 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 a discussion of other information regarding the Company's asbestos and environmental exposure, 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.

Travelers Property Casualty Corp. (TPC), a wholly-owned subsidiary of the Company, was involved in three significant proceedings relating to ACandS, Inc. (ACandS), formerly a national distributor and installer of products containing asbestos. The proceedings in the U.S. Bankruptcy Court for the District of Delaware (*In re: ACandS, Inc.*) and the U.S. District Court for the District of Pennsylvania (*ACandS, Inc. v. Travelers Casualty and Surety Co.*, No. 03-MC-222 and *ACandS, Inc. v. Travelers Casualty and Surety Co.*, 00-CV-4633), involved disputes as to whether and to what extent any of ACandS' potential liabilities for current or future bodily injury asbestos claims are covered by insurance policies issued by TPC. On July 6, 2007, the Company announced that it entered into a settlement to resolve fully all current and future asbestos-related coverage claims relating to ACandS. Pursuant to that agreement, the Company placed \$449 million into escrow. The settlement was subject to a number of contingencies, including final non-appealable approvals by the court of the settlement agreement, a plan of reorganization for ACandS and the issuance of injunctions in favor of the Company. The contingencies

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

have been fulfilled. On August 6, 2008, the Company's \$449 million settlement payment was released from the escrow to the ACandS Trust. This transaction was recorded as a paid claim and reduction in claim reserves, and accordingly, there was no effect on the Company's results of operations. The Company is seeking to recover approximately \$84 million of the \$449 million from reinsurers; such a recovery would also have no effect on the Company's results of operations.

In October 2001 and April 2002, two purported class action suits (*Wise v. Travelers* and *Meninger v. Travelers*) were filed against TPC and other insurers (not including 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 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 were filed in Massachusetts and Hawaii state courts (these suits and the West Virginia 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, are also pending in Texas state court against TPC and SPC, and in Louisiana state court against TPC (the claims asserted in these suits, together with the West Virginia suit, 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. Each of these settlements is contingent upon, among other things, 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.

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On August 17, 2004, the bankruptcy court entered an order approving the settlements and clarifying its prior orders that all of the pending Statutory and Hawaii Actions and substantially all Common Law Claims pending against TPC are barred. The 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 bankruptcy court's orders while vacating that portion of the bankruptcy court's orders 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 an order issued by the bankruptcy court prohibiting the prosecution of the Statutory and Hawaii Actions and the Common Law Claims, as well as future similar direct action litigation, against TPC. 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 on September 4, 2008 seeking review of the Second Circuit's decision. The Petitions remain pending. Unless the Supreme Court grants discretionary review and reverses the Second Circuit's decision, and the bankruptcy court's order is reinstated and becomes final, the settlements will be voided and TPC will have no obligation to pay the amounts due under the settlement agreements (other than certain administrative expenses). In that case, the Company intends to litigate the direct action cases vigorously.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

SPC, which is not covered by the 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.

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

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 Transatlantic Reinsurance Company (Transatlantic), XL Reinsurance America, Inc. (XL), Odyssey America Reinsurance Corporation (Odyssey), Employers Reinsurance Company (Employers) and 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. The reinsurers asserted counterclaims seeking rescission of the vehicle residual value reinsurance contracts issued to Gulf and unspecified damages for breach of contract. Gerling commenced a separate action asserting the same claims, which has been consolidated with the original Gulf action for pre-trial purposes.

Gulf has entered into final settlement agreements with Employers, XL, Transatlantic and Odyssey which resolve all claims between Gulf and these defendants under the reinsurance agreements at issue in the litigation.

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In November 2007, the court issued rulings denying Gulf's motion for partial summary judgment against Gerling, the sole remaining defendant, but granting Gerling's motion for partial summary judgment on certain claims and counterclaims asserted by Gulf and Gerling. Gulf has appealed the court's decision to the Supreme Court of New York Appellate Division, First Department, and has been granted a stay of trial on the remaining claims pending that appeal. Briefing of the appeal was completed on April 11, 2008 and oral argument was held on May 20, 2008. Gulf denies Gerling's allegations, believes that it has a strong legal basis to collect the amounts due under the reinsurance contracts and intends 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.

As previously disclosed, as part of ongoing, 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 include 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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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 certain of the Company's business practices. This review initially focused on the Company's relationship with brokers and was commenced after the announcement of litigation brought in October 2004 by the New York Attorney General's office against a major broker.

The internal review was expanded to address the various requests for information described above and to verify whether the Company's business practices in these areas have been appropriate. The Company's review was extensive, involving the examination of e-mails and underwriting files, as well as interviews of current and former employees.

In its review, the Company found only a few instances of conduct that were inconsistent with the Company's employee code of conduct and has responded appropriately. The Company's internal review with respect to finite reinsurance considered finite products the Company both purchased and sold. The Company completed its review with respect to the identified finite products purchased and sold and concluded that no adjustment to previously issued financial statements is required.

Any authority with open inquiries or investigations could ask that additional work be performed or reach conclusions different from the Company's. Accordingly, it would be premature to reach any conclusions as to the likely outcome of the regulatory inquiries described above.

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 are appealing the district court's decisions to the U.S. Court of Appeals for 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.

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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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 (the Division) 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 has cooperated with the Division's 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 \$1.63 billion and \$1.60 billion at September 30, 2008 and December 31, 2007, respectively.

Guarantees

The Company has contingent obligations for guarantees related to letters of credit, issuance of debt securities, certain investments and various indemnifications 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. At September 30, 2008, the maximum amount of the Company's contingent obligation for those indemnifications that are quantifiable related to sales of business entities was \$1.80 billion. 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. Included in the indemnification obligations at September 30, 2008 was \$150 million related to the Company's variable interest in Camperdown UK Limited, which SPC sold in December 2003. The Company's variable interest results from an agreement to indemnify the purchaser in the event a specified reserve deficiency develops, a reserve-related foreign exchange impact occurs, or a foreign tax adjustment is imposed on a pre-sale reporting period. The carrying value of this obligation at September 30, 2008 was \$32 million which, along with \$7 million related to a loss reserve guarantee for the sale of a foreign subsidiary, was included in Other Liabilities on the Company's consolidated balance sheet. No other liabilities related to these arrangements have been recognized on the Company's consolidated balance sheet at September 30, 2008 and December 31, 2007.

13. 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, 2008.

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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 is deemed to have no assets or operations independent of TIGHI. Consolidating financial information for TIGHI has not been presented herein because such financial information would be substantially the same as the financial information provided for TPC.

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

13. 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

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

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For the three months ended September 30, 2007

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	\$ 3,606	\$ 1,810	\$ 25	\$	\$ 5,416
Net investment income	622	282	25		929
Fee income	147	1			148
Net realized investment gains (losses)	(13)	3	10		
Other revenues	31	3	2	(3)	33
Total revenues	4,393	2,099	37	(3)	6,526
Claims and expenses					
Claims and claim adjustment expenses	2,019	966			2,985
Amortization of deferred acquisition costs	633	323			956
General and administrative expenses	547	258	12		817
Interest expense	18	2	77	(3)	94
Total claims and expenses	3,217	1,549	89	(3)	4,852
Income (loss) before income taxes	1,176	550	(52)		1,674
Income tax expense (benefit)	330	158	(12)		476
Equity in net income of subsidiaries			1,238	(1,238)	
Net income	\$ 846	\$ 392	\$ 1,198	\$ (1,238)	\$ 1,198

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2007

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	\$ 10,688	\$ 5,350	\$	\$	\$ 16,038
Net investment income	1,922	898	59		2,879
Fee income	392	3			395
Net realized investment gains	24	91	27		142
Other revenues	32	39	10	(9)	72
Total revenues	13,058	6,381	96	(9)	19,526
Claims and expenses					
Claims and claim adjustment expenses	6,138	3,132			9,270
Amortization of deferred acquisition costs	1,796	944			2,740
General and administrative expenses	1,654	784	48		2,486
Interest expense	67	7	190	(9)	255
Total claims and expenses	9,655	4,867	238	(9)	14,751
Income (loss) before income taxes	3,403	1,514	(142)		4,775
Income tax expense (benefit)	917	354	(34)		1,237
Equity in net income of subsidiaries			3,646	(3,646)	
Net income	\$ 2,486	\$ 1,160	\$ 3,538	\$ (3,646)	\$ 3,538

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At September 30, 2008

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale at fair value (including \$15 subject to securities lending) (amortized cost \$62,897)	\$ 40,610	\$ 20,545	\$ 336	\$	\$ 61,491
Equity securities, at fair value (cost \$472)	235	154	58		447
Real estate	2	828			830
Short-term securities	2,715	647	1,762		5,124
Other investments	2,185	973	149		3,307
Total investments	45,747	23,147	2,305		71,199
Cash	176	210	1		387
Investment income accrued	531	295	5	(1)	830
Premiums receivable	4,138	2,051			6,189
Reinsurance recoverables	9,677	5,431			15,108
Ceded unearned premiums	981	188			1,169
Deferred acquisition costs	1,572	282			1,854
Deferred tax asset	1,460	562	(70)		1,952
Contractholder receivables	4,903	1,974			6,877
Goodwill	2,412	954			3,366
Other intangible assets	393	323			716
Investment in subsidiaries			27,676	(27,676)	
Other assets	2,137	638	299	(26)	3,048
Total assets	\$ 74,127	\$ 36,055	\$ 30,216	\$ (27,703)	\$ 112,695
Liabilities					
Claims and claim adjustment expense reserves	\$ 36,561	\$ 20,466	\$	\$	\$ 57,027
Unearned premium reserves	7,919	3,458			11,377
Contractholder payables	4,903	1,974			6,877
Payables for reinsurance premiums	437	329			766
Debt	1,193	9	5,155	(26)	6,331
Other liabilities	4,049	1,208	340	(1)	5,596
Total liabilities	55,062	27,444	5,495	(27)	87,974
Shareholders equity					
Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding)			92		92

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Common stock (1,750.0 shares authorized; 587.2 shares issued and outstanding)		396	19,196	(396)	19,196
Additional paid-in capital	11,055	7,181		(18,236)	
Retained earnings	8,521	1,335	12,690	(9,856)	12,690
Accumulated other changes in equity from nonowner sources	(511)	(301)	(932)	812	(932)
Treasury stock, at cost (126.0 shares)			(6,325)		(6,325)
Total shareholders equity	19,065	8,611	24,721	(27,676)	24,721
Total liabilities and shareholders equity	\$ 74,127	\$ 36,055	\$ 30,216	\$ (27,703)	\$ 112,695

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At December 31, 2007

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale at fair value (including \$1,988 subject to securities lending) (amortized cost \$64,152)	\$ 42,278	\$ 22,249	\$ 393	\$	\$ 64,920
Equity securities, at fair value (cost \$473)	276	140	72		488
Real estate	2	848			850
Short-term securities	2,721	1,290	1,175		5,186
Other investments	2,294	944	136		3,374
Total investments	47,571	25,471	1,776		74,818
Cash	202	55	14		271
Investment income accrued	535	321	5		861
Premiums receivable	4,037	2,105			6,142
Reinsurance recoverables	10,126	5,515			15,641
Ceded unearned premiums	861	262			1,123
Deferred acquisition costs	1,530	279			1,809
Deferred tax asset	871	303	33		1,207
Contractholder receivables	4,924	1,772			6,696
Goodwill	2,412	954			3,366
Other intangible assets	425	389			814
Investment in subsidiaries			29,522	(29,522)	
Other assets	1,935	465	245	(169)	2,476
Total assets	\$ 75,429	\$ 37,891	\$ 31,595	\$ (29,691)	\$ 115,224
Liabilities					
Claims and claim adjustment expense reserves	\$ 37,000	\$ 20,700	\$	\$	\$ 57,700
Unearned premium reserves	7,674	3,553			11,227
Contractholder payables	4,924	1,772			6,696
Payables for reinsurance premiums	332	286			618
Debt	1,595	152	4,664	(169)	6,242
Other liabilities	3,844	1,966	315		6,125
Total liabilities	55,369	28,429	4,979	(169)	88,608
Shareholders equity					
Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding)			112		112

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Common stock (1,750.0 shares authorized; 627.8 shares issued and outstanding)		396	18,990	(396)	18,990
Additional paid-in capital	11,052	7,134		(18,186)	
Retained earnings	8,487	1,690	11,110	(10,177)	11,110
Accumulated other changes in equity from nonowner sources	521	242	670	(763)	670
Treasury stock, at cost (82.9 shares)			(4,266)		(4,266)
Total shareholders equity	20,060	9,462	26,616	(29,522)	26,616
Total liabilities and shareholders equity	\$ 75,429	\$ 37,891	\$ 31,595	\$ (29,691)	\$ 115,224

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

13. 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	39	22			61
Real estate		25			25
Other investments	369	178			547
Purchases of investments:					
Fixed maturities	(3,815)	(2,820)			(6,635)
Equity securities	(42)	(60)	(1)		(103)
Real estate		(31)			(31)
Other investments	(309)	(218)			(527)
Net (purchases) sales of short-term securities	5	643	(588)		60
Securities transactions in 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					
Issuance of debt			496		496
Payment of debt	(403)				(403)
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)
			8		8

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Excess tax benefits from share-based payment arrangements					
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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the nine months ended September 30, 2007

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	\$ 2,486	\$ 1,160	\$ 3,538	\$ (3,646)	\$ 3,538
Net adjustments to reconcile net income to net cash provided by operating activities	(262)	434	(2,165)	2,394	401
Net cash provided by operating activities	2,224	1,594	1,373	(1,252)	3,939
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	2,192	1,751	14		3,957
Proceeds from sales of investments:					
Fixed maturities	1,742	1,937	2		3,681
Equity securities	59	18			77
Real estate	8	2			10
Other investments	620	533			1,153
Purchases of investments:					
Fixed maturities	(5,018)	(4,668)			(9,686)
Equity securities	(46)	(16)	(1)		(63)
Real estate	(1)	(68)			(69)
Other investments	(412)	(150)			(562)
Net (purchases) sales of short-term securities	363	(24)	(403)		(64)
Securities transactions in course of settlement	(29)	(299)	(3)		(331)
Other	(348)	56			(292)
Net cash used in investing activities	(870)	(928)	(391)		(2,189)
Cash flows from financing activities					
Issuance of debt			2,461		2,461
Payment of debt	(860)		(1,096)		(1,956)
Dividends paid to shareholders			(557)		(557)
Issuance of common stock employee share options			192		192
Treasury stock acquired share repurchase authorization			(1,947)		(1,947)
Treasury stock acquired net employee share-based compensation			(39)		(39)
Excess tax benefits from share-based payment arrangements			23		23

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Dividends paid to parent company	(1,037)	(690)		1,727	
Capital contributions and loans between subsidiaries	480	17	(22)	(475)	
Other		1			1
Net cash used in financing activities	(1,417)	(672)	(985)	1,252	(1,822)
Effect of exchange rate changes on cash		4			4
Net decrease in cash	(63)	(2)	(3)		(68)
Cash at beginning of period	325	130	4		459
Cash at end of period	\$ 262	\$ 128	\$ 1	\$	\$ 391
Supplemental disclosure of cash flow information					
Income taxes paid (received)	\$ 811	\$ 293	\$ (169)	\$	\$ 935
Interest paid	\$ 101	\$	\$ 139	\$	\$ 240

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

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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

2008 Third Quarter Consolidated Results of Operations

- Net income of \$214 million, or \$0.36 per share basic and diluted
- Net earned premiums of \$5.45 billion
- Catastrophe losses of \$1.04 billion pretax (\$682 million after-tax)
- Net favorable prior year reserve development of \$334 million pretax (\$210 million after-tax)
- GAAP combined ratio of 104.7%
- Net investment income of \$716 million pretax (\$587 million after-tax)
- Net realized investment losses of \$170 million pretax (\$116 million after-tax)

2008 Third Quarter Consolidated Financial Condition

- Total assets of \$112.70 billion
- Total investments of \$71.20 billion; fixed maturities and short-term securities comprise 94% of total investments
- Repurchased 6.2 million common shares for total cost of approximately \$272 million under the share repurchase authorization; remaining authorized share repurchase capacity of \$3.91 billion at September 30, 2008
- Shareholders' equity of \$24.72 billion; book value per common share of \$41.94
- Holding company liquidity of \$2.11 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.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued****Consolidated Results of Operations**

(in millions, except ratio and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues				
Premiums	\$ 5,448	\$ 5,416	\$ 16,145	\$ 16,038
Net investment income	716	929	2,309	2,879
Fee income	120	148	315	395
Net realized investment gains (losses)	(170)		(196)	142
Other revenues	31	33	99	72
Total revenues	6,145	6,526	18,672	19,526
Claims and expenses				
Claims and claim adjustment expenses	3,871	2,985	9,984	9,270
Amortization of deferred acquisition costs	990	956	2,905	2,740
General and administrative expenses	1,001	817	2,718	2,486
Interest expense	95	94	276	255
Total claims and expenses	5,957	4,852	15,883	14,751
Income before income taxes	188	1,674	2,789	4,775
Income tax expense (benefit)	(26)	476	666	1,237
Net income	\$ 214	\$ 1,198	\$ 2,123	\$ 3,538
Net income per share				
Basic	\$ 0.36	\$ 1.85	\$ 3.53	\$ 5.36
Diluted	\$ 0.36	\$ 1.81	\$ 3.47	\$ 5.22
GAAP combined ratio				
Loss and loss adjustment expense ratio	69.9%	53.6%	60.9%	56.6%
Underwriting expense ratio	34.8	30.8	33.1	30.5
GAAP combined ratio	104.7%	84.4%	94.0%	87.1%

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

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Net income of \$0.36 per common share in the third quarter of 2008 was 80% lower than the \$1.81 per common share in the same period of 2007. Net income in the third quarter of 2008 totaled \$214 million, 82% lower than \$1.20 billion in the same period of 2007. Through the first nine months of 2008, net income of \$3.47 per common share was 34% lower than the \$5.22 per common share in the same period of 2007. Net income of \$2.12 billion in the first nine months of 2008 was 40% lower than the comparable 2007 net income of \$3.54 billion. The lower rates of decline in per share income compared with the rates of decline in actual income reflected the impact of the Company's significant common share repurchases in the preceding twelve months. The decreases in net income in the third quarter and first nine months of 2008 were primarily due to a significant increase in the cost of catastrophes. Also contributing to the decreases were a decline in net investment income, net realized investment losses, a small increase in the number of large losses that exceeded expectations within International, an increase in non-catastrophe related weather losses, the impact of competitive market conditions on pricing over the preceding twelve months, and the impact of loss cost trends. These factors in both periods were partially offset by an increase in net favorable prior year reserve development, which totaled \$334 million and \$1.26 billion in the third quarter and first nine months of 2008, respectively, compared with \$231 million and \$418 million in the respective periods of 2007. The cost of catastrophes (net of reinsurance and including hurricane-related assessments and reinstatement premiums) in the third quarter and first nine months of 2008 totaled \$1.04

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

billion and \$1.49 billion, respectively, compared with \$14 million and \$99 million in the respective periods of 2007. Hurricanes Ike, Gustav and Dolly accounted for the majority of the cost of catastrophes in the third quarter of 2008. Net income in the third quarter and first nine months of 2007 included net benefits of \$29 million and \$160 million, respectively, due to the implementation of a new fixed, value-based compensation program for the majority of the Company's agents. Net income in the first nine months of 2007 also included a benefit of \$86 million resulting from the favorable resolution of various prior year federal tax matters and a loss of \$39 million related to the Company's redemption of its 4.50% contingently convertible debentures.

Hurricane-related assessments include assessments from 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. Assessments are levied on 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 2008 totaled \$5.45 billion, an increase of \$32 million, or less than 1%, over the same 2007 period. Through the first nine months of 2008, earned premiums of \$16.15 billion were \$107 million, or less than 1%, higher than the same 2007 period. Earned premiums in the third quarter and first nine months of 2008 were reduced by \$8 million of reinstatement premiums related to catastrophe losses incurred in the third quarter. Reinstatement premiums represent additional premiums payable to reinsurers to maintain coverage limits for certain excess-of-loss reinsurance treaties. In March 2007, the Company sold its Mexican surety subsidiary, Afianzadora Insurgentes, S.A. de C.V. (Afianzadora Insurgentes), and in April 2007, the Company sold Mendota Insurance Company and its subsidiaries (collectively, Mendota), which primarily offered nonstandard automobile coverage. Adjusting for the sales of subsidiaries in 2007, earned premiums in the first nine months of 2008 increased 1% over the same period of 2007. In the Business Insurance segment, earned premiums in the third quarter of 2008 (excluding reinstatement premiums) declined 1% from the same 2007 period, reflecting the impact of competitive market conditions on pricing over the preceding twelve months. In the Financial, Professional & International Insurance segment, earned premium growth of 2% in the third quarter of 2008 (excluding reinstatement premiums) was driven by strong net written premium volume in recent quarters, primarily in the Bond & Financial Products group due to changes in the terms of certain reinsurance treaties. In the Personal Insurance segment, earned premium growth of 3% in the third quarter of 2008 reflected continued strong business retention rates and new business volume, coupled with continued renewal price increases.

Net Investment Income

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

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Average investments (a)	\$ 74,256	\$ 74,451	\$ 74,426	\$ 73,431
Pretax net investment income	716	929	2,309	2,879
After-tax net investment income	587	724	1,861	2,219
Average pretax yield (b)	3.9%	5.0%	4.1%	5.2%
Average after-tax yield (b)	3.2%	3.9%	3.3%	4.0%

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

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

Net investment income of \$716 million in the third quarter of 2008 declined \$213 million, or 23%, from the same period of 2007, primarily due to lower returns from non-fixed maturity investments, which were slightly negative in the third quarter of 2008, compared with strong positive returns in the same 2007 period. Through the first nine months of 2008, net investment income of \$2.31 billion was \$570 million, or 20%, lower than in the same period of 2007. The 2008 third quarter and nine-month totals both reflected significantly lower returns from non-fixed maturity investments that are accounted for under the equity method of accounting. Most notably, investment returns from real estate-related equity investments, private equity investments and hedge funds produced net investment income that was significantly lower in the third quarter and first nine months of 2008 compared to the same periods of 2007. The decline in net investment income from these investments in 2008 reflected current market conditions, which resulted in a lower level of transactions and lower market values compared to the prior year periods. Net investment income from the Company's fixed

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

maturity portfolio in the third quarter and first nine months of 2008 also declined from the same periods of 2007, primarily due to a significant decline in short-term interest rates. The amortized cost of the fixed maturity portfolio at September 30, 2008 totaled \$62.90 billion, \$1.15 billion lower than at the same date in 2007, primarily reflecting the use of funds for the Company's common share repurchases during that twelve-month period, the payment of a \$449 million asbestos settlement in August 2008 (discussed in more detail in the Asbestos Claims and Litigation section herein), and a \$250 million contribution to the Company's pension plan in September 2008, partially offset by strong cash flows from operating activities.

Except as described below for certain legal entities, the Company allocates its invested assets and the related net investment income to its reportable business segments. Pretax net investment income is allocated based upon an investable funds concept, which takes into account liabilities (net of non-invested assets) and appropriate capital considerations for each segment. For investable funds, a benchmark investment yield is developed that reflects the estimated duration of the loss reserves' future cash flows, the interest rate environment at the time the losses were incurred and A+ rated corporate debt instrument yields. For capital, a benchmark investment yield is developed that reflects the average yield on the total investment portfolio. The benchmark investment yields are applied to each segment's investable funds and capital, respectively, to produce a total notional investment income by segment. The Company's actual net investment income is allocated to each segment in proportion to the respective segment's notional investment income to total notional investment income. There are certain legal entities within the Company that are dedicated to specific reportable business segments. The invested assets and related net investment income from these legal entities are reported in the applicable business segment and are not allocated.

Fee Income

The National Accounts market in the Business Insurance segment is the primary source of the Company's fee-based business. The \$28 million and \$80 million declines in fee income in the third quarter and first nine months of 2008, respectively, compared with the same periods of 2007, are described in the Business Insurance segment discussion that follows.

Net Realized Investment Gains (Losses)

Net realized investment losses in the third quarter of 2008 totaled \$170 million, compared with no net realized investment gains (losses) in the same period of 2007. Net realized investment losses in the third quarter of 2008 included \$156 million of investment impairments, of which \$67 million were related to securities issued by Lehman Brothers Holdings Inc. and its subsidiaries. An additional \$26 million of impairments were related to externally managed securities with respect to which the Company does not have the ability to assert an intention to hold until recovery in market value. The 2008 third-quarter impairments also included \$25 million related to structured mortgage obligations and \$28 million related to the deteriorated financial position of various issuers, which the Company intends to sell. Impairment losses totaled \$14 million in the third quarter of 2007.

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Through the first nine months of 2008, net realized investment losses totaled \$196 million, compared with net realized investment gains of \$142 million in the same period of 2007. The year-to-date total in 2008 included \$222 million of impairment losses, which were partially offset by \$17 million of net realized investment gains from the sale of venture capital investments and \$12 million of realized gains from the sale of a small insurance underwriting subsidiary. The 2007 nine-month net realized investment gains included \$81 million of gains resulting from the bundled sale of a substantial portion of the Company's venture capital investment holdings. Impairments in the first nine months of 2008 were concentrated in the third quarter and are summarized above. On a year to date basis, \$43 million of impairments related to externally managed fixed maturity securities with respect to which the Company does not have the ability to assert an intention to hold until recovery in market value. An additional \$9 million of impairment losses in the fixed maturity portfolio in the first nine months of 2008 were related to securities that were previously managed externally and which the Company intended to sell and thus no longer had the intent to hold until recovery in market value. The remaining impairment losses in the investment portfolio in the first nine months of 2008 were primarily related to various issuers' deteriorated financial position. Impairment losses in the first nine months of 2007 totaled \$32 million.

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Consolidated gross and net written premiums were as follows:

(in millions)	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Business Insurance	\$ 3,215	\$ 3,243	\$ 9,610	\$ 9,951
Financial, Professional & International Insurance	965	978	2,976	3,016
Personal Insurance	1,954	1,876	5,542	5,463
Total	\$ 6,134	\$ 6,097	\$ 18,128	\$ 18,430

(in millions)	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Business Insurance	\$ 2,748	\$ 2,726	\$ 8,464	\$ 8,541
Financial, Professional & International Insurance	901	918	2,530	2,502
Personal Insurance	1,832	1,750	5,304	5,209
Total	\$ 5,481	\$ 5,394	\$ 16,298	\$ 16,252

Gross written premiums in the third quarter of 2008 increased by less than 1% over the same period of 2007, and net written premiums increased 2% over the third quarter of 2007. Through the first nine months of 2008, gross written premiums decreased 2%, whereas net written premiums increased by less than 1%, compared with the same period of 2007. Net written premium volume in the third quarter and first nine months of 2008 was reduced by \$8 million of reinstatement premiums related to catastrophe losses incurred. Afianzadora Insurgentes and Mendota generated combined net written premiums of \$74 million in the first nine months of 2007 (none in the third quarter of the year). Through the first nine months of 2008, adjusting for the reinstatement premiums in 2008 and the impact of Afianzadora Insurgentes and Mendota in 2007, gross written premiums declined 1% and net written premiums increased by less than 1% compared with the same period of 2007. In the Business Insurance segment, net written premiums in the third quarter of 2008 increased slightly over the same 2007 period, and year-to-date 2008 net written premiums were slightly below the same prior year period. Premium growth in Industry-Focused Underwriting, Select Accounts and Commercial Accounts in 2008 was generally driven by strong business retention rates and new business volume, largely offset by premium declines in National Accounts, Target Risk Underwriting and Specialized Distribution. In the Financial, Professional & International Insurance segment, net written premiums

in the third quarter of 2008 declined 2% from the same 2007 period, reflecting competitive market conditions. Through the first nine months of 2008, adjusting for the impact of the sale of Afianzadora Insurgentes in 2007, net written premiums increased 2% over the same period of 2007, largely driven by the favorable impact of foreign currency exchange rates and changes in the terms of certain reinsurance treaties that resulted in a higher level of business retained in the Bond & Financial Products group in the first quarter of the year. In the Personal Insurance segment, net written premiums in the third quarter and first nine months of 2008, adjusting for the impact of the sale of Mendota in 2007, increased 5% and 3%, respectively, over the same periods of 2007, reflecting continued strong retention rates, renewal price increases and growth in new business levels.

Claims and Expenses

Claims and claim adjustment expenses totaled \$3.87 billion in the third quarter of 2008, \$886 million, or 30%, higher than the third quarter 2007 total of \$2.99 billion, primarily reflecting a significant increase in the cost of catastrophes, a small increase in the number of large losses that exceeded expectations within International, an increase in non-catastrophe related weather losses and the impact of loss cost trends. These factors were partially offset by an increase in net favorable prior year reserve development. The cost of catastrophes included in claims and claim adjustment expenses in the third quarter of 2008 totaled \$858 million, primarily resulting from Hurricanes Ike, Gustav and Dolly. The cost of catastrophes in the third quarter of 2007 totaled \$14 million. Net favorable

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

prior year reserve development in the third quarter of 2008 totaled \$334 million, compared with \$231 million of net favorable prior year reserve development in the same period of 2007. Through the first nine months of 2008, claims and claim adjustment expenses totaled \$9.98 billion, an increase of \$714 million, or 8%, over the nine-month 2007 total of \$9.27 billion. The increase was driven by the same factors impacting the third quarter described above, partially offset by the impact of the sale of Afianzadora Insurgentes and Mendota. The cost of catastrophes included in claims and claim adjustment expense in the first nine months of 2008 totaled \$1.31 billion, primarily resulting from the third-quarter hurricanes, as well as wind, rain and hail storms in several regions of the United States throughout the year. The cost of catastrophes in the first nine months of 2007 was \$99 million, primarily resulting from wind, rain and hail storms in several regions of the United States. The 2008 year-to-date total of claims and claim adjustment expenses included \$1.26 billion of net favorable prior year reserve development, compared with \$418 million of net favorable prior year reserve development in the same period of 2007.

The Company's three business segments each experienced net favorable prior year reserve development in the third quarter of 2008. The majority of net favorable prior year reserve development occurred in the Business Insurance segment and was driven by better than expected loss results primarily concentrated in the general liability and commercial multi-peril product lines, partially offset by an increase in asbestos reserves. The Company's completion of its annual in-depth asbestos claim review and quarterly asbestos reserve review during the third quarter of 2008 resulted in a \$70 million increase to the Company's asbestos reserves, as discussed in more detail in the Asbestos Claims and Litigation section herein. The Financial, Professional & International Insurance segment experienced better than expected prior year loss experience in the International group, particularly in the public and products liability (general liability), professional indemnity (professional liability) and property lines of business in the United Kingdom, the general liability line of business in Canada, and the Aviation and Property lines of business at Lloyd's. In the Personal Insurance segment, favorable prior year reserve development in the third quarter of 2008 was primarily driven by favorable loss experience related to Hurricane Katrina as well as better than expected loss experience in certain lines of business within Homeowners and Other. Net favorable prior year reserve development in the third quarter of 2007 was primarily concentrated in the commercial multi-peril, general liability, commercial automobile and property product lines in the Business Insurance segment. Factors contributing to net favorable prior year reserve development in each segment for the third quarter and first nine months of 2008 and 2007 are discussed in more detail in the segment discussions that follow.

The amortization of deferred acquisition costs totaled \$990 million in the third quarter of 2008, \$34 million, or 4%, higher than the comparable 2007 third quarter total of \$956 million. Through the first nine months of 2008, the amortization of deferred acquisition costs totaled \$2.91 billion, an increase of \$165 million, or 6%, over the nine-month 2007 total of \$2.74 billion. The growth in amortization costs in both periods primarily reflected the higher level of amortized commission expense in 2008 resulting from the Company's implementation of a new fixed agent compensation program in 2007. In the first quarter of 2007, the Company discontinued the use of contingent commissions and implemented a new fixed agent compensation program for all of its personal insurance business. The Company also offered the majority of its agents conducting commercial insurance business the option to switch to this new compensation program. The Company's total payout rate for all agent compensation for 2007 was substantially the same as in prior years; however, the change to the new program created a difference in the timing of commission expense recognition. The cost of the new program is required to be deferred and amortized over the related policy period (generally six to twelve months), whereas the cost of the contingent commission program was not subject to deferred acquisition cost accounting treatment and, therefore, was expensed as incurred.

General and administrative expenses totaled \$1.00 billion in the third quarter of 2008, an increase of \$184 million, or 23%, over the comparable 2007 total of \$817 million. Through the first nine months of 2008, general and administrative expenses totaled \$2.72 billion, an increase of

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\$232 million, or 9%, over the nine-month 2007 total of \$2.49 billion. The increases in both periods of 2008 primarily reflected the impact of \$176 million of hurricane-related assessments during the third quarter. The remainder of the increases in both periods of 2008 reflected continued investments to support business growth and product development, as well as salary increases in the normal course of business, partially offset for the nine-month period by the impact of the sales of Afianzadora Insurgentes and Mendota in 2007.

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Interest Expense

Interest expense of \$95 million in the third quarter of 2008 was \$1 million higher than in the same period of 2007. Through the first nine months of 2008, interest expense totaled \$276 million, an increase of \$21 million, or 8%, over the nine-month 2007 total of \$255 million. The increase in both periods of 2008 primarily reflected a higher average level of debt outstanding at a higher weighted average interest rate during the first nine months of 2008 compared with the same period of 2007.

GAAP Combined Ratio

The consolidated loss and loss adjustment expense ratio of 69.9% for the third quarter of 2008 was 16.3 points higher than the loss and loss adjustment expense ratio of 53.6% in the same 2007 period. The cost of catastrophes accounted for 15.8 points of the 2008 third quarter loss and loss adjustment expense ratio, whereas the 2007 third quarter loss and loss adjustment expense ratio included a 0.3 point impact from catastrophe losses. The 2008 and 2007 third quarter loss and loss adjustment expense ratios included 6.2 point and 4.3 point benefits, respectively, from net favorable prior year reserve development.

The consolidated loss and loss adjustment expense ratio of 60.9% for the first nine months of 2008 was 4.3 points higher than the loss and loss adjustment expense ratio of 56.6% in the same 2007 period. The cost of catastrophes accounted for 8.2 points of the 2008 nine-month loss and loss adjustment expense ratio, whereas the 2007 nine-month loss and loss adjustment expense ratio included a 0.6 point impact from catastrophe losses. The 2008 and 2007 nine-month loss and loss adjustment expense ratios included 7.8 point and 2.6 point benefits, respectively, from net favorable prior year reserve development.

The 2008 third quarter and nine-month loss and loss adjustment expense ratios adjusted for the cost of catastrophes and prior year reserve development were 2.7 points and 1.9 points higher than the respective 2007 ratios on the same basis, reflecting the impact of competitive market conditions on pricing over the preceding twelve months, a small increase in the number of large losses, non-catastrophe weather related losses and loss cost trends.

The underwriting expense ratio of 34.8% for the third quarter of 2008 was 4.0 points higher than the third quarter 2007 underwriting expense ratio of 30.8%. Through the first nine months of 2008, the underwriting expense ratio of 33.1% was 2.6 points higher than the underwriting expense ratio of 30.5% in the same 2007 period. The respective 2008 expense ratios included 3.3 point and 1.1 point impacts of the hurricane-related assessments and reinstatement premiums, whereas the respective 2007 ratios included 0.5 point and 1.0 point benefits from the implementation of the new fixed agent compensation program described above. Adjusting for these factors in both years, the adjusted third-quarter and year-to-date 2008 expense ratios were 0.2 points and 0.5 points higher than the adjusted expense ratios for the respective

periods of 2007, reflecting continued investments to support business growth and product development, as well as salary increases in the normal course of business.

RESULTS OF OPERATIONS BY SEGMENT

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.

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 other runoff operations, which collectively are referred to as Business Insurance Other.

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Results of the Company's Business Insurance segment were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues				
Earned premiums	\$ 2,823	\$ 2,850	\$ 8,390	\$ 8,415
Net investment income	494	664	1,607	2,075
Fee income	120	148	315	395
Other revenues	8	1	21	15
Total revenues	\$ 3,445	\$ 3,663	\$ 10,333	\$ 10,900
Total claims and expenses	\$ 2,983	\$ 2,550	\$ 8,031	\$ 7,805
Operating income	\$ 378	\$ 803	\$ 1,719	\$ 2,286
Loss and loss adjustment expense ratio	67.1%	53.3%	58.7%	57.3%
Underwriting expense ratio	34.2	30.7	33.0	30.5
GAAP combined ratio	101.3%	84.0%	91.7%	87.8%

Overview

Operating income of \$378 million in the third quarter of 2008 was \$425 million, or 53%, lower than operating income of \$803 million in the same period of 2007. Through the first nine months of 2008, operating income totaled \$1.72 billion, a decline of \$567 million, or 25%, from the nine-month 2007 total of \$2.29 billion. The reduction in operating income in the third quarter of 2008 was primarily due to a significant increase in the cost of catastrophes. Also contributing to this reduction were declines in net investment income and fee income, the impact of competitive market conditions on pricing over the preceding twelve months, and the impact of loss cost trends. The decline in operating income in the first nine months of 2008 was driven by these factors, as well as a small increase in the number of large property losses during the first six months of the year. An increase in net favorable prior year reserve development in both periods of 2008 partially offset these factors. Operating earnings in the first nine months of 2007 included a benefit from the resolution of certain tax matters. The cost of catastrophes in the third quarter and first nine months of 2008 totaled \$488 million and \$730 million, respectively. No catastrophe losses were incurred in the respective periods of 2007. Net favorable prior year reserve development totaled \$247 million and \$916 million in the third quarter and first nine months of 2008, respectively, compared with net favorable prior year reserve development of \$165 million and \$252 million in the respective periods of 2007. Operating income in the third quarter and first nine months of 2007 benefited by \$14 million and \$80 million, respectively, from the Company's implementation of a new fixed agent compensation program, which is described in more detail in the Consolidated Overview section herein.

Earned Premiums

Earned premiums of \$2.82 billion in the third quarter of 2008 decreased \$27 million, or 1%, from the same period of 2007, reflecting the impact of competitive market conditions on pricing over the preceding twelve months. Earned premiums of \$8.39 billion in the first nine months of 2008 were slightly below the comparable 2007 total.

Net Investment Income

Refer to the *Net Investment Income* section of the *Consolidated Results of Operations* discussion herein for a description of the factors contributing to the decrease in the Company's consolidated net investment income in the third quarter and first nine months of 2008 compared with the same periods of 2007.

Fee Income

National Accounts is the primary source of fee income due to its service businesses, which include claim and loss prevention services to large companies that choose to self-insure a portion of their insurance risks, and claims and policy management services to workers' compensation residual market pools. The \$28 million and \$80 million declines in fee income in the third quarter and first nine months of 2008, respectively, compared with the same 2007 periods, primarily resulted from lower serviced premium volume due to the depopulation of workers' compensation residual market pools, the impact of lower loss

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costs on fee income (since fees are principally based on a percentage of losses or number of claims serviced, both of which have declined due to workers' compensation reforms in numerous states), and lower new business volume due to increased competition.

Claims and Expenses

Claims and claim adjustment expenses in the third quarter of 2008 totaled \$1.95 billion, an increase of \$358 million, or 22%, over the same 2007 period, primarily reflecting a significant increase in the cost of catastrophes and the impact of loss cost trends in many business units, which were partially offset by an increase in net favorable prior year reserve development. The cost of catastrophes included in claims and claim adjustment expenses in the third quarter of 2008 totaled \$409 million, primarily resulting from Hurricanes Ike, Gustav and Dolly. There were no catastrophe losses incurred in the third quarter of 2007. Net favorable prior year reserve development totaled \$247 million in the third quarter of 2008, compared with net favorable prior year reserve development of \$165 million in the same 2007 period. The 2008 third-quarter net favorable prior year development was driven by better than expected loss results primarily concentrated in the general liability and commercial multi-peril product lines. The favorable prior year reserve development in these lines was attributable to several factors, including improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. This net favorable prior year reserve development was partially offset by an increase in asbestos reserves. The Company's completion of its annual in-depth asbestos claim review and quarterly asbestos reserve review during the third quarter of 2008 resulted in a \$70 million increase to the Company's asbestos reserves, as discussed in more detail in the Asbestos Claims and Litigation section herein. Net favorable prior year reserve development in the third quarter of 2007 was driven by better than expected loss development for recent accident years in the commercial multi-peril, general liability, commercial automobile and property product lines. For the commercial multi-peril and general liability product lines, the better than anticipated loss development in 2007 was attributable to the same factors described above for the third quarter of 2008. The commercial automobile product line experienced better than expected loss development in the third quarter of 2007 due to more favorable legal and judicial environments, claim handling initiatives focused on the automobile line of insurance and improvements in auto safety technology.

Claims and claim adjustment expenses in the first nine months of 2008 totaled \$5.07 billion, an increase of \$67 million, or 1%, over the same 2007 period, reflecting a significant increase in the cost of catastrophes, a small increase in the number of large property losses and the impact of loss cost trends, which were largely offset by a substantial increase in net favorable prior year reserve development. The cost of catastrophes included in claims and claim adjustment expense in the first nine months of 2008 totaled \$651 million, primarily resulting from the third-quarter hurricanes, as well as wind, rain and hail storms in several regions of the United States throughout the year. There were no catastrophe losses incurred during the same 2007 period. Net favorable prior year reserve development totaled \$916 million in the first nine months of 2008, compared with net favorable prior year reserve development of \$252 million in the same 2007 period. The 2008 year-to-date total was driven by the same factors described above for the third quarter, as well as an increase in anticipated ceded recoveries for older accident years in the general liability product line and better than anticipated loss development in the property and commercial automobile product lines. The property product line improvement occurred primarily in the 2007 accident year as a result of favorable trends for certain large national property, national programs, and ocean marine claim exposures and lower than expected weather-related losses during the last half of 2007, as well as favorable trends in certain large inland marine claim exposures and in ceded recoveries for commercial property large claims. In addition, the commercial multi-peril and property product lines' 2005 accident year results experienced improvement due to the litigation environment relating to, and ongoing claim settlements for, Hurricane Katrina. The commercial automobile product line improvement was attributable to several factors, including improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The net favorable prior year reserve development in the foregoing product lines in the first nine months of 2008 was partially offset by net unfavorable prior year reserve development in the workers' compensation product line, primarily driven by higher than anticipated medical costs

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related to 2004 and prior accident years. The Company recorded an \$85 million increase to environmental reserves in the second quarter of 2008, which is discussed in more detail in the Environmental Claims and Litigation section herein. The net favorable prior year reserve development in the first nine months of 2007 was primarily due to better than expected frequency and severity loss trends for recent accident years in commercial multi-peril, general liability, commercial automobile and property product lines, which were driven by similar factors described above for the third quarter of 2007. In addition, in 2007, the net total prior year development in the first nine months included a \$185 million increase to environmental reserves.

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The amortization of deferred acquisition costs totaled \$466 million and \$1.37 billion in the third quarter and first nine months of 2008, respectively, higher than the comparable totals of \$451 million and \$1.29 billion in the respective periods of 2007. The growth in amortization costs in both periods primarily reflected the higher level of amortized commission expense in 2008 resulting from the Company's implementation of a new fixed agent compensation program in 2007.

General and administrative expenses totaled \$565 million in the third quarter of 2008, an increase of \$61 million, or 12%, over the comparable 2007 total of \$504 million. Through the first nine months of 2008, general and administrative expenses totaled \$1.60 billion, an increase of \$81 million, or 5%, over the nine-month 2007 total of \$1.52 billion. The increases in 2008 primarily reflected the impact of \$76 million of hurricane-related assessments during the third quarter.

GAAP Combined Ratio

The loss and loss adjustment expense ratio in the third quarter of 2008 of 67.1% was 13.8 points higher than the comparable third quarter 2007 ratio of 53.3%. The cost of catastrophes in the third quarter of 2008 accounted for 14.6 points of the loss and loss adjustment expense ratio. Net favorable prior year reserve development provided 8.7 point and 5.9 point benefits to the loss and loss adjustment expense ratio in the third quarters of 2008 and 2007, respectively. Through the first nine months of 2008, the loss and loss adjustment expense ratio of 58.7% was 1.4 points higher than the comparable 2007 ratio of 57.3%. The cost of catastrophes in the first nine months of 2008 accounted for 7.8 points of the loss and loss adjustment expense ratio. Net favorable prior year reserve development provided 10.9 point and 3.0 point benefits to the loss and loss adjustment expense ratio in the first nine months of 2008 and 2007, respectively. The 2008 third quarter loss and loss adjustment expense ratio adjusted for the cost of catastrophes and prior year reserve development was 2.0 points higher than the 2007 ratio on the same basis, reflecting the impact of competitive market conditions on pricing over the preceding twelve months and loss cost trends. The 2008 year-to-date loss and loss adjustment expense ratio adjusted for the cost of catastrophes and prior year reserve development was 1.5 points higher than the 2007 ratio on the same basis, reflecting the same factors impacting the third quarter adjusted ratio, as well as a small increase in the number of large property losses in the first half of the year.

The underwriting expense ratio of 34.2% for the third quarter of 2008 was 3.5 points higher than the comparable 2007 ratio. Through the first nine months of 2008, the underwriting expense ratio of 33.0% was 2.5 points higher than the comparable 2007 ratio. The respective 2008 expense ratios included 2.7 point and 0.9 point impacts of the hurricane-related assessments and reinstatement premiums, whereas the respective 2007 ratios included 0.5 point and 0.9 point benefits from the implementation of the new fixed agent compensation program described in the Consolidated Overview section herein. Adjusting for these factors in both years, the adjusted third-quarter and year-to-date 2008 expense ratios were 0.3 points and 0.7 points higher than the adjusted expense ratios for the respective periods of 2007, primarily reflecting continued investments to support business growth and product development, salary increases in the normal course of business, the impact of a decline in the rate of earned premium growth relative to expense growth, and declines in fee income. (A portion of fee income is accounted for as a reduction of expenses for purposes of calculating the expense ratio).

Written Premiums

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

(in millions)	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Select Accounts	\$ 684	\$ 661	\$ 2,137	\$ 2,124
Commercial Accounts	718	695	2,030	2,020
National Accounts	398	444	1,207	1,435
Industry-Focused Underwriting	640	604	1,894	1,822
Target Risk Underwriting	530	573	1,604	1,718
Specialized Distribution	240	257	745	788
Total Business Insurance Core	3,210	3,234	9,617	9,907
Business Insurance Other	5	9	(7)	44
Total Business Insurance	\$ 3,215	\$ 3,243	\$ 9,610	\$ 9,951

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(in millions)	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Select Accounts	\$ 662	\$ 637	\$ 2,094	\$ 2,069
Commercial Accounts	635	615	1,858	1,837
National Accounts	240	245	727	786
Industry-Focused Underwriting	613	584	1,810	1,746
Target Risk Underwriting	366	394	1,234	1,286
Specialized Distribution	228	243	731	771
Total Business Insurance Core	2,744	2,718	8,454	8,495
Business Insurance Other	4	8	10	46
Total Business Insurance	\$ 2,748	\$ 2,726	\$ 8,464	\$ 8,541

In Business Insurance Core, gross written premiums in the third quarter of 2008 decreased by 1% from the same period of 2007, whereas net written premiums increased by 1% over the same period of 2007. Through the first nine months of 2008, gross and net written premiums decreased by 3% and less than 1%, respectively, from the same period of 2007. The difference in rates of decline between gross and net written premiums in both periods of 2008 was concentrated in National Accounts. A significant portion of gross written premiums for products offered by National Accounts is ceded to other insurers and residual market pools. As a result, the decline in gross written premiums did not have a proportional impact on net written premiums.

Select Accounts. Net written premiums of \$662 million in the third quarter of 2008 increased 4% over the same period of 2007. Through the first nine months of 2008, net written premiums of \$2.09 billion were 1% higher than in the same 2007 period. Business retention rates in the third quarter and first nine months of 2008 remained strong and were consistent with the prior year periods. Renewal price changes declined from prior year periods. In the aggregate, new business levels in the third quarter of 2008 increased over the same period of 2007 but were slightly lower on a year-to-date basis compared with 2007. The Company continued to experience a favorable impact on its new business volume from its enhanced quote-to-issue agency platform and multivariate pricing program for smaller businesses served by Select Accounts. In addition, Select Accounts also experienced an increase in new business volume for larger accounts in both periods of 2008.

Commercial Accounts. Net written premiums of \$635 million in the third quarter of 2008 increased 3% over the prior year quarter. Through the first nine months of 2008, net written premiums of \$1.86 billion were 1% higher than in the same period of 2007. Business retention rates in the third quarter and first nine months of 2008 remained strong and were slightly higher than in the same periods of 2007. Renewal price changes were slightly negative in the third quarter and first nine months of 2008, consistent with recent quarters, and were lower than in the same 2007 periods. New business levels also declined when compared with both periods of 2007, reflecting competitive market conditions in this market, partially offset by increased sales of additional products to existing policyholders in the first nine months of 2008.

National Accounts. Net written premiums of \$240 million in the third quarter of 2008 decreased 2% from the prior year quarter. Through the first nine months of 2008, net written premiums of \$727 million were 8% lower than in the same period of 2007. The declines in both periods of

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2008 primarily reflected a significant decline in renewal price changes, as the price charged for National Accounts products is adjusted based on actual loss performance, which continues to be favorable due to workers' compensation reforms. New business volume increased in the third quarter of 2008 compared with the same 2007 period; however, competitive market conditions throughout the first nine months of 2008 resulted in a decline in new business volume overall compared with the first nine months of 2007. Business retention rates in both periods of 2008 remained strong and increased over the same periods of 2007.

Industry-Focused Underwriting. Net written premiums of \$613 million in the third quarter of 2008 increased 5% over the prior year quarter. Through the first nine months of 2008, net written premiums of \$1.81 billion increased by 4% over the same 2007 period. All business units in this market recorded net written premium growth in the third quarter and first nine months of 2008 over the same periods of 2007. In the Public Sector business unit, growth was driven by higher new business

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volume coupled with continued strong business retention rates. Growth in the Oil & Gas business unit resulted from strong new business volume. Growth in Construction net written premium volume in the third quarter of 2008 was driven by strong business retention levels coupled with continued strong new business volume, while Agribusiness growth was driven by high business retention levels. Premium growth in the first nine months of 2008 was concentrated in the Construction, Agribusiness, Public Sector and Oil & Gas business units, generally reflecting the same factors driving third quarter premium growth.

Target Risk Underwriting. Net written premiums of \$366 million in the third quarter of 2008 decreased 7% from the prior year quarter. Through the first nine months of 2008, net written premiums of \$1.23 billion were down 4% from the same period of 2007. The declines in both periods were concentrated in the National Property business unit, reflecting reductions in renewal price changes and new business volume due to competitive market conditions, and in the Inland Marine business unit, primarily reflecting reductions in business retention rates and new business volume due to general economic conditions.

Specialized Distribution. Net written premium volume of \$228 million in the third quarter of 2008 decreased 6% from the prior year quarter. Through the first nine months of 2008, net written premiums of \$731 million were 5% lower than in the same 2007 period. The premium declines reflected negative renewal price changes in both the Northland and National Programs business units. In the National Programs business unit, business retention rates were consistent and new business levels decreased compared with the third quarter and first nine months of 2007. In the Northland business unit, new business levels remained strong and were slightly higher than in the third quarter of 2007, but were down slightly on a year-to-date basis compared with 2007.

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, 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.

Results of the Company's Financial, Professional & International Insurance segment were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007

Revenues

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Earned premiums	\$	863	\$	854	\$	2,562	\$	2,542
Net investment income		114		126		356		372
Other revenues		5		5		18		16
Total revenues	\$	982	\$	985	\$	2,936	\$	2,930
Total claims and expenses	\$	861	\$	729	\$	2,243	\$	2,258
Operating income	\$	83	\$	183	\$	495	\$	491
Loss and loss adjustment expense ratio		62.9%		48.3%		50.9%		51.9%
Underwriting expense ratio		36.5		36.3		36.3		36.4
GAAP combined ratio		99.4%		84.6%		87.2%		88.3%

Overview

Operating income of \$83 million in the third quarter of 2008 decreased by \$100 million, or 55%, from the prior year quarter. Through the first nine months of 2008, operating income of \$495 million increased by \$4 million, or 1%, over the same 2007 period. The decline in third-quarter operating income was primarily driven by an increase in the cost of catastrophes. Also contributing to the decline were a small increase in the number of large losses that exceeded expectations within International and a decline in net

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investment income. The slight increase in operating income for the first nine months of 2008 compared with the same 2007 period primarily resulted from a significant increase in net favorable prior year reserve development, largely offset by the same factors causing the decline in third quarter operating income. The cost of catastrophes in the third quarter and first nine months of 2008 totaled \$91 million and \$97 million, respectively, compared with no catastrophe losses in either period of 2007. Net favorable prior year reserve development totaled \$43 million and \$238 million in the third quarter and first nine months of 2008, respectively, compared with \$42 million and \$57 million of net favorable prior year reserve development in the respective periods of 2007.

Earned Premiums

Earned premiums of \$863 million and \$2.56 billion in the third quarter and first nine months of 2008, respectively, both increased 1% over the same periods of 2007. The totals for both periods of 2008 were reduced by \$5 million of reinstatement premiums related to catastrophe losses incurred in the third quarter. Adjusting for those premiums in 2008 and the sale of Afianzadora Insurgentes in 2007, earned premiums in the third quarter and first nine months of 2008 both grew 2% over the respective periods of 2007. Earned premium growth was concentrated in the Construction Services business unit of the Bond & Financial Products group due to changes in the terms of certain reinsurance treaties that resulted in a higher level of business retained in the first quarter of the year. Earned premium growth in the first nine months of 2008 also reflected the favorable impact of foreign currency exchange rates.

Net Investment Income

Net investment income in this segment in the third quarter and first nine months of 2008 declined 9% and 4%, respectively, from the same prior year periods. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the decrease in the Company's consolidated net investment income in the third quarter and first nine months of 2008 compared with the same periods of 2007, as well as a discussion of the Company's net investment income allocation methodology.

Claims and Expenses

Claims and claim adjustment expenses of \$545 million in the third quarter of 2008 increased by \$126 million, or 30%, over the same 2007 period, primarily reflecting an increase in the cost of catastrophes and a small increase in the number of large losses that exceeded expectations within International. Through the first nine months of 2008, claims and claim adjustment expenses totaled \$1.31 billion, a decrease of \$23 million, or 2%, compared with the same 2007 period. The decline primarily reflected a significant increase in net favorable prior year reserve development, which was largely offset by the factors described above causing the increase in claims and claim adjustment expenses in the third quarter. On a year-to-date basis, the sale of Afianzadora Insurgentes in 2007 also contributed to the decline in claims and claim adjustment expenses. The cost of catastrophes included in claims and claim adjustment expenses in the third quarter and first nine months of 2008 totaled

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\$82 million and \$88 million, respectively, compared with no catastrophe losses in either period of 2007. Hurricanes Ike, Gustav and Dolly accounted for the majority of catastrophe losses in the third quarter of 2008.

Net favorable prior year reserve development totaled \$43 million in the third quarter of 2008, primarily driven by better than expected loss experience in the International group, particularly in the public and products liability (general liability), professional indemnity (professional liability) and property lines of business in the United Kingdom, the general liability line of business in Canada, and the Aviation and Property lines of business at Lloyd's. The improvements in the longer-tail lines of business in the United Kingdom and Canada were attributable to several factors, including enhanced risk control and underwriting strategies throughout the International group. The improvements in the shorter-tail lines of business at Lloyd's were concentrated in the 2004-2006 years of account. Through the first nine months of 2008, net favorable prior year reserve development in the Financial, Professional & International Insurance segment totaled \$238 million, driven by the same factors described above, as well as net favorable prior year reserve development in the employers' liability (workers' compensation) and motor (commercial automobile) lines of business in the International group and better than expected loss experience for the contract surety business within the fidelity and surety product line in the Bond & Financial Products group, and the property line of business in the International group. The net favorable prior year development for contract surety business resulted from favorable settlements on large claims, primarily from accident years prior to 2005. In the property line of business, the improvement primarily resulted from better than anticipated loss development in the United Kingdom, in part due to favorable claim activity on 2007 flood losses. The favorable impact of legal and judicial reforms in Ireland also contributed to net favorable prior year loss development in the International group in the first nine months of 2008. Net favorable prior year reserve development in the third quarter and first nine months of 2007 totaled \$42 million and \$57 million, respectively. The net favorable prior year reserve development in the third quarter of 2007 primarily reflected better

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than expected loss development in international property, employers' liability and professional liability lines of business for recent accident years, which was attributable to several factors, including enhanced pricing and underwriting strategies throughout the international operations, and the favorable impact of legal and judicial reforms in Ireland.

The amortization of deferred acquisition costs totaled \$166 million and \$488 million in the third quarter and first nine months of 2008, respectively, virtually level with the same periods of 2007. General and administrative expenses in the third quarter and first nine months of 2008 totaled \$149 million and \$442 million, respectively, slightly higher than in the same periods of 2007, reflecting \$4 million of hurricane-related assessments during the third quarter, and, for the year-to-date period, the impact of foreign currency exchange rates. The Company's implementation of the new fixed agent compensation program in the first quarter of 2007 did not have a material impact on the Financial, Professional & International Insurance segment.

GAAP Combined Ratio

The loss and loss adjustment expense ratio of 62.9% in the third quarter of 2008 was 14.6 points higher than the 2007 ratio of 48.3%. The 2008 ratio included a 4.9 point benefit from net favorable prior year reserve development and a 9.8 point impact from the cost of catastrophes, whereas the 2007 ratio included a 4.8 point benefit from net favorable prior year reserve development and no impact from catastrophe losses. Through the first nine months of 2008, the loss and loss adjustment expense ratio of 50.9% was 1.0 point lower than the 2007 nine-month ratio of 51.9%. The 2008 ratio included a 9.2 point benefit from net favorable prior year reserve development and a 3.5 point impact from the cost of catastrophes, whereas the 2007 ratio included a 2.2 point benefit from net favorable prior year reserve development and no catastrophe impact. The 2008 third quarter and nine-month loss and loss adjustment expense ratios adjusted for catastrophe losses and prior year reserve development were 4.9 points and 2.5 points higher, respectively, than the 2007 ratios on the same basis, reflecting a small increase in the number of large losses that exceeded expectations within International.

The underwriting expense ratio of 36.5% in the third quarter of 2008 was 0.2 points higher than in the same period of 2007. The underwriting expense ratio of 36.3% through the first nine months of 2008 was 0.1 point lower than the comparable 2007 underwriting expense ratio. The respective 2008 expense ratios included 0.7 point and 0.3 point impacts of the hurricane-related assessments and reinstatement premiums. Adjusting for these factors, the adjusted third-quarter and year-to-date 2008 expense ratios were 0.5 points and 0.4 points lower, respectively, than the expense ratios in the same periods of 2007.

Written Premiums

Financial, Professional & International Insurance's gross and net written premiums by market were as follows:

(in millions)	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Bond & Financial Products	\$ 667	\$ 679	\$ 1,907	\$ 1,986
International	298	299	1,069	1,030
Total Financial, Professional & International Insurance	\$ 965	\$ 978	\$ 2,976	\$ 3,016

(in millions)	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Bond & Financial Products	\$ 643	\$ 655	\$ 1,642	\$ 1,624
International	258	263	888	878
Total Financial, Professional & International Insurance	\$ 901	\$ 918	\$ 2,530	\$ 2,502

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The Financial, Professional & International Insurance segment's gross written premiums in the third quarter of 2008 and first nine months of 2008 were both 1% lower than in the same 2007 periods. Net written premiums in the third quarter of 2008 declined 2% compared with the same 2007 period, whereas in the first nine months of 2008, net written premiums increased 1% over the same period of 2007. Afianzadora accounted for \$30 million and \$25 million of gross and net written premiums in first nine months of 2007, respectively (none in the third quarter of the year). Adjusting for the impact of the sale of Afianzadora in 2007, gross written premiums in the first nine months of 2008 were virtually level with the same period of 2007, whereas net written premiums were 2% higher than in the first nine months of 2007. The difference in year-to-date 2008 gross and net written premium growth rates primarily reflected changes in the terms of certain of the Company's reinsurance treaties that resulted in a higher level of business retained in the Bond & Financial Products group in the first quarter of the year.

In the Bond & Financial Products group, net written premiums in the third quarter of 2008 declined 2% from the same 2007 period, primarily reflecting competitive market conditions and disciplined underwriting. Through the first nine months of 2008, net written premiums in the Bond & Financial Products group increased 3% over the same 2007 period (adjusted for the impact of Afianzadora), reflecting the reinsurance treaty changes described above. In the Bond & Financial Products group (excluding the surety line of business, for which the following are not relevant measures), business retention rates in the third quarter of 2008 remained strong and increased slightly over the same 2007 period. Renewal price changes in the third quarter of 2008 were flat, compared to an increase in the prior year period, and new business volume was slightly below the third quarter of 2007. In the International group, net written premiums in the third quarter of 2008 declined from the same period of 2007, due to \$5 million of hurricane-related reinstatement premiums. Through the first nine months of 2008, net written premiums in the International group increased 1% over the same period of 2007, driven by new business at Lloyd's, strong business volume in the United Kingdom and the favorable impact of foreign currency exchange rates, which were largely offset by declines in net written premiums driven by the reinstatement premiums, reductions in exposure within the Accident and Special Risks business unit at Lloyd's and the non-renewal of certain property business in Canada. For the International group in the third quarter of 2008, business retention rates, while strong, declined from the third quarter of 2007 due to the intentional non-renewal of certain property business in Canada as well as more competitive market conditions at Lloyd's. Renewal price changes in the third quarter of 2008 were flat, compared to a decrease in the prior year period and new business volume declined slightly.

Personal Insurance

The Personal Insurance segment offers 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.

Results of the Company's Personal Insurance segment were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(dollars in millions)	2008	2007	2008	2007

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Revenues								
Earned premiums	\$	1,762	\$	1,712	\$	5,193	\$	5,081
Net investment income		108		139		346		432
Other revenues		18		23		58		68
Total revenues	\$	1,888	\$	1,874	\$	5,597	\$	5,581
Total claims and expenses								
	\$	2,013	\$	1,473	\$	5,311	\$	4,408
Operating income (loss)								
	\$	(64)	\$	276	\$	239	\$	818
Loss and loss adjustment expense ratio		77.9%		56.8%		69.4%		57.8%
Underwriting expense ratio		35.0		28.0		31.5		27.6
GAAP combined ratio		112.9%		84.8%		100.9%		85.4%

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Overview

The operating loss of \$64 million in the third quarter of 2008 was \$340 million lower than operating income in the same period of 2007. Through the first nine months of 2008, operating income of \$239 million was \$579 million, or 71%, lower than in the same 2007 period. The decline in operating results in 2008 primarily reflected an increase in the cost of catastrophes. Also contributing to the decline were a reduction in net investment income and an increase in non-catastrophe related weather losses. The cost of catastrophes in the third quarter and first nine months of 2008 totaled \$463 million and \$666 million, respectively, compared with \$14 million and \$99 million in the respective periods of 2007. Net favorable prior year reserve development in the third quarter and first nine months of 2008 totaled \$44 million and \$106 million, respectively, compared with net favorable prior year reserve development of \$24 million and \$109 million in the respective periods of 2007. In addition, results in the third quarter and first nine months of 2007 benefited by \$13 million and \$70 million, respectively, from the Company's implementation of a new fixed agent compensation program, which is described in more detail in the Consolidated Overview section herein.

Earned Premiums

Earned premiums of \$1.76 billion in the third quarter of 2008 increased \$50 million, or 3%, over earned premiums of \$1.71 billion in the same period of 2007. Through the first nine months of 2008, earned premiums of \$5.19 billion were \$112 million, or 2%, higher than in the same 2007 period. Adjusting for the impact of the sale of Mendota in the first quarter of 2007, earned premiums in the first nine months of 2008 increased 3% over the same 2007 period. The increase reflected continued strong business retention rates and new business volume, coupled with continued renewal price increases.

Net Investment Income

Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the decrease in the Company's consolidated net investment income in 2008.

Claims and Expenses

Claims and claim adjustment expenses in the third quarter of 2008 totaled \$1.37 billion, an increase of \$402 million, or 41%, over the same period of 2007. Through the first nine months of 2008, claims and claim adjustment expenses of \$3.61 billion were \$670 million, or 23%, higher than in the same 2007 period. The increases in both periods of 2008 reflected a significant increase in the cost of catastrophes, as well as

non-catastrophe weather related losses in the Homeowners and Other product line. The cost of catastrophes included in claim and claim adjustment expenses in the third quarter and first nine months of 2008 totaled \$367 million and \$570 million, respectively, compared with \$14 million and \$99 million in the respective periods of 2007. Catastrophe losses in 2008 primarily resulted from Hurricanes Ike, Gustav and Dolly in the third quarter, as well as tornado, wind and hail storms in various regions of the United States throughout the year. Net favorable prior year reserve development in the third quarter and first nine months of 2008 totaled \$44 million and \$106 million, respectively, compared with net favorable prior year reserve development of \$24 million and \$109 million, respectively, in the same periods of 2007. The third quarter 2008 favorable prior year reserve development was primarily driven by favorable loss experience related to Hurricane Katrina as well as better than expected loss experience in certain lines of business within Homeowners and Other. The net favorable prior year reserve development in the third quarter of 2007 was driven by better than expected automobile loss experience due in part to claims initiatives. The nine-month 2008 favorable prior year reserve development reflected the improvement related to Hurricane Katrina in the third quarter as well as improved experience from recent accident years for both the Homeowners and Other and Automobile product lines. This improvement was driven in part by claim initiatives as well as better than expected outcomes on 2007 catastrophe-related claims. In addition, the Homeowners and Other product line had improvement in the older accident years for the umbrella line as well as favorable experience from accident year 2007 for allied coverages due to less than expected claim activity. The net favorable prior year reserve development in the first nine months of 2007 reflected better than expected automobile loss experience due in part to claim initiatives, and fewer than expected late reported homeowners claims related to non-catastrophe weather events that occurred in the fourth quarter of 2006. In addition, a portion of net favorable prior year reserve development in the Homeowners and Other line of business in the first nine months of 2007 was attributable to a decrease in the number of claims due to changes in terms and conditions, including higher deductibles as well as the filing of fewer small-dollar claims.

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The amortization of deferred acquisition costs totaled \$358 million and \$1.05 billion in the third quarter and first nine months of 2008, respectively, compared with \$339 million and \$962 million in the respective periods of 2007. The growth in amortization costs in both periods primarily reflected the higher level of amortized commission expense in 2008 resulting from the Company's implementation of a new fixed agent compensation program in 2007, as well as an increase in business volume.

General and administrative expenses totaled \$281 million and \$655 million in the third quarter and first nine months of 2008, respectively, compared with \$162 million and \$509 million in the respective periods of 2007. The increases in 2008 included the impact of \$96 million of hurricane-related assessments during the third quarter. The remaining increases in both periods reflected growth in business volume and continued investments to support business growth and product development.

GAAP Combined Ratio

The loss and loss adjustment expense ratio of 77.9% in the third quarter of 2008 was 21.1 points higher than the comparable 2007 ratio of 56.8%. The 2008 ratio included a 20.8 point impact of the cost of catastrophes and a 2.5 point benefit from net favorable prior year reserve development, whereas the 2007 ratio included a 0.8 point impact of the cost of catastrophes and a 1.4 point benefit from net favorable prior year reserve development. Through the first nine months of 2008, the loss and loss adjustment expense ratio of 69.4% was 11.6 points higher than the comparable 2007 ratio of 57.8%. The 2008 ratio included an 11.0 point impact of the cost of catastrophes and a 2.1 point benefit from net favorable prior year reserve development, whereas the 2007 ratio included a 1.9 point impact of catastrophe losses and a 2.1 point benefit from net favorable prior year reserve development. The 2008 third quarter and nine-month loss and loss adjustment expense ratios adjusted for catastrophe losses and prior year reserve development were 2.2 points and 2.5 points higher, respectively, than the 2007 ratios on the same basis, primarily reflecting an increase in non-catastrophe weather related losses in the Homeowners and Other line of business in 2008.

The underwriting expense ratio of 35.0% in the third quarter of 2008 was 7.0 points higher than the third quarter 2007 ratio of 28.0%. Through the first nine months of 2008, the underwriting expense ratio of 31.5% was 3.9 points higher than the comparable 2007 ratio of 27.6%. The respective 2008 expense ratios included 5.4 point and 1.8 point impacts of the hurricane-related assessments, whereas the respective 2007 ratios included 0.8 point and 1.4 point benefits from the implementation of the new fixed agent compensation program described in the Consolidated Overview section herein. Adjusting for these factors in both years, the adjusted third-quarter and year-to-date 2008 expense ratios were 0.8 points and 0.7 points higher than the adjusted expense ratios for the respective periods of 2007, primarily reflecting continued investments to support business growth and product development.

Written Premiums

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

(in millions)	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Automobile	\$ 938	\$ 914	\$ 2,807	\$ 2,816
Homeowners and Other	1,016	962	2,735	2,647
Total Personal Insurance	\$ 1,954	\$ 1,876	\$ 5,542	\$ 5,463

(in millions)	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Automobile	\$ 929	\$ 901	\$ 2,784	\$ 2,781
Homeowners and Other	903	849	2,520	2,428
Total Personal Insurance	\$ 1,832	\$ 1,750	\$ 5,304	\$ 5,209

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Gross written premiums in the third quarter and first nine months of 2008 increased 4% and 1%, respectively, over the same periods of 2007. Net written premiums in the third quarter and first nine months of 2008 increased 5% and 2%, respectively, over the comparable periods of 2007. Mendota accounted for \$49 million of both gross and net written premiums in the first nine months of 2007 (none in the third quarter). Adjusting for the sale of Mendota, gross and net written premiums in the first nine months of 2008 increased 2% and 3%, respectively, over the same period of 2007.

In the Automobile line of business, net written premiums in the third quarter of 2008 increased 3% over the same period of 2007. Through the first nine months of 2008, net written premiums in the Automobile line of business increased 2% over the same 2007 period, adjusting for the sale of Mendota. Business retention rates in the third quarter and first nine months of 2008 remained strong and were consistent with the same periods of 2007. Renewal price changes in 2008 remained positive and were slightly higher than in the third quarter of 2007. Through the first nine months of 2008, renewal price changes declined from the same period of 2007. New business levels in both periods of 2008 increased over the same periods of 2007.

In the Homeowners and Other line of business, net written premiums in the third quarter and first nine months of 2008 grew 6% and 4%, respectively, over the same periods of 2007. Business retention rates in the third quarter and first nine months of 2008 remained strong and were consistent with the same periods of 2007. Renewal price changes in both periods of 2008 remained positive, but declined from the same periods of 2007. New business levels also remained strong and increased slightly over the third quarter and first nine months of 2007.

The Personal Insurance segment had approximately 7.3 million and 7.1 million policies in force at September 30, 2008 and 2007, respectively.

Interest Expense and Other

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net loss	\$ (67)	\$ (64)	\$ (197)	\$ (152)

The net loss in the third quarter and first nine months of 2008 included after-tax interest expense of \$61 million and \$178 million, respectively, compared with \$60 million and \$165 million in the respective periods of 2007. The net loss in the first nine months of 2007 also included an after-tax loss of \$25 million related to the Company's redemption of its 4.50% contingently convertible debentures in April 2007, consisting of the redemption premium paid and the write-off of remaining debt issuance costs. Additionally, the net loss in the first nine months of 2007 was reduced by \$52 million from the favorable resolution of various prior year tax matters.

ASBESTOS CLAIMS AND LITIGATION

The Company believes that the property and casualty insurance industry has suffered from court decisions and other trends that have attempted to expand insurance coverage for asbestos claims far beyond the intent of insurers and policyholders. While the Company has experienced a decrease in asbestos claims over the past several years, the Company continues to receive a significant number of asbestos claims from the Company's policyholders (which includes others seeking coverage under a policy), including claims against the Company's policyholders by individuals who do not appear to be impaired by asbestos exposure. Factors underlying these claim filings include intensive advertising by lawyers seeking asbestos claimants and the focus by plaintiffs on previously peripheral defendants. The focus on these defendants is primarily the result of the number of traditional asbestos defendants who have sought bankruptcy protection in previous years. In addition to contributing to the overall number of claims, bankruptcy proceedings may increase the volatility of asbestos-related losses by initially delaying the reporting of claims and later by significantly accelerating and increasing loss payments by insurers, including the Company. Bankruptcy proceedings have also caused increased settlement demands against those policyholders who are not in bankruptcy but that remain in the tort system. Currently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket. This trend of prioritizing claims involving credible evidence of injuries, along with the focus on previously peripheral

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defendants, contributes to the loss and loss expense payments experienced by the Company. The Company's asbestos-related claims and claim adjustment expense experience also has been impacted by the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers.

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

Many coverage disputes with policyholders are only resolved through settlement agreements. Because many policyholders make exaggerated demands, it is difficult to predict the outcome of settlement negotiations. Settlements involving bankrupt policyholders may include extensive releases which are favorable to the Company but which could result in settlements for larger amounts than originally anticipated. There also may be instances where a court may not approve a proposed settlement, which may result in additional litigation and potentially less beneficial outcomes for the Company. As in the past, the Company will continue to pursue settlement opportunities.

On July 6, 2007, the Company announced that it entered into a settlement to resolve fully all current and future asbestos-related coverage claims relating to ACandS. Pursuant to that agreement, the Company placed \$449 million into escrow. The settlement was subject to a number of contingencies, including final non-appealable approvals by the court of the settlement agreement, a plan of reorganization for ACandS and the issuance of injunctions in favor of the Company. The contingencies have been fulfilled. On August 6, 2008, the Company's \$449 million settlement payment was released from the escrow to the ACandS Trust. This transaction was recorded as a paid claim and reduction in claim reserves, and accordingly, there was no effect on the Company's results of operations. The Company is seeking to recover approximately \$84 million of the \$449 million from reinsurers; such a recovery would also have no effect on the Company's results of operations. (Also, see Part II Item 1, Legal Proceedings).

In addition to claims against policyholders, proceedings have been launched directly against insurers, including the Company, by individuals challenging insurers' conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos-related bodily injuries. The Company anticipates the filing of other direct actions against insurers, including the Company, in the future. It is difficult to predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability. The Company believes it has meritorious defenses to these claims and has received favorable rulings in certain jurisdictions.

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Travelers Property Casualty Corp. (TPC), a wholly-owned subsidiary of the Company, had entered into settlement agreements, which had been approved by the court in connection with the proceedings initiated by TPC in the Johns Manville bankruptcy court. On March 29, 2006, the U.S. District Court for the Southern District of New York substantially affirmed the bankruptcy court's orders, while vacating that portion of the bankruptcy court's orders which 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 the District Court's order on jurisdictional grounds. On September 4, 2008, TPC and certain other parties to the settlement filed Petitions for Writ of Certiorari to the United States Supreme Court seeking review of the Second Circuit's decision. The parties' obligations under the settlement agreements are contingent upon approval of the bankruptcy court's order. Unless the Second Circuit's decision is reversed by the Supreme Court and the bankruptcy court's order is reinstated and becomes final, the settlements will be voided, TPC will have no obligation to pay the amounts due under the settlement agreements (other than certain administrative expenses) and the Company intends to litigate the direct action cases vigorously. (For a description of these matters, see Part II Item 1 Legal Proceedings).

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Because each policyholder presents different liability and coverage issues, the Company generally reviews the exposure presented by each policyholder at least annually. In the course of this review, the Company generally considers, among other factors: available insurance coverage, including the role of any umbrella or excess insurance the Company has issued to the policyholder; limits and deductibles; an analysis of the policyholder's potential liability; the jurisdictions involved; past and anticipated future claim activity and loss development on pending claims; past settlement values of similar claims; allocated claim adjustment expense; potential role of other insurance; the role, if any, of non-asbestos claims or potential non-asbestos claims in any resolution process; and applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim.

In the third quarter of 2008, the Company completed its annual in-depth asbestos claim review. The trends noted at the completion of the last two annual reviews continued. The trends include:

- the emergence of more stable payment trends for a large proportion of policyholders;
- a decrease in the number of new claims received;
- a decrease in the number of large asbestos exposures confronting the Company due to additional settlement activity;
- a decrease in the number and volatility of asbestos-related bankruptcies; and
- the absence of new theories of liability or new classes of defendants.

While the Company believes that these trends indicate a reduction in the volatility associated with the Company's overall asbestos exposure, there nonetheless remains a high degree of uncertainty with respect to future exposure from asbestos claims.

As in prior years, the annual claim review considered active policyholders and litigation cases for potential product and non-product liability. The Home Office and Field Office categories, which account for the vast majority of policyholders with active asbestos-related claims, again experienced an overall reduction in new claim filings. In 2008, the number of policyholders tendering asbestos claims for the first time was consistent with the number tendering claims in the prior year period. Defense and indemnity costs in these categories remain at similar levels to what the Company has experienced in recent years due to the level of trial activity involving impaired individuals.

The Company's quarterly asbestos reserve review includes an analysis of exposure and claim payment patterns by policyholder category, as well as recent settlements, policyholder bankruptcies, judicial rulings and legislative actions. Developing payment trends among policyholders in the

Home Office, Field Office and Assumed and International categories are also analyzed. In addition, the Company reviews its historical gross and net loss and expense paid experience, year-by-year, to assess any emerging trends, fluctuations, or characteristics suggested by the aggregate paid activity. For those policyholders for which an estimate of the gross ultimate exposure for indemnity and related claim adjustment expense is determined, the Company calculates, by each policy year, a ceded reinsurance projection based on any applicable facultative and treaty reinsurance, past ceded experience and reinsurance collections. Conventional actuarial methods are not utilized to establish asbestos reserves nor have the Company's evaluations resulted in any way of determining a meaningful average asbestos defense or indemnity payment. The completion of these reviews and analyses in the third quarter resulted in a \$70 million increase in the Company's asbestos reserves. This increase was driven by a change in the estimated costs associated with litigating asbestos coverage matters and a change in estimated losses for certain individual policyholders. The increase was not a result of a change in the Company's assessment of the underlying asbestos environment.

Net asbestos losses and expenses paid in the first nine months of 2008 were \$577 million, compared with \$266 million in the same period of 2007. This increase in net paid losses is the result of the ACandS payment in the third quarter of 2008. Excluding the ACandS settlement, payments in the first nine months of 2008 were \$212 million. Approximately 70% and 36% of total net paid losses in the first nine months of 2008 and 2007, respectively, related to policyholders with whom the Company had entered into settlement agreements limiting the Company's liability. In addition, although payments in the Home Office and Field Office categories remained consistent with prior year levels, payments in the Assumed and International category declined due to a decrease in commutation activity. Net asbestos reserves totaled \$3.23 billion at September 30, 2008, compared with \$3.79 billion at September 30, 2007.

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

(at and for the nine months ended September 30, in millions)	2008	2007
Beginning reserves:		
Direct	\$ 4,353	\$ 4,777
Ceded	(619)	(726)
Net	3,734	4,051
Incurred losses and loss expenses:		
Direct	70	(1)
Ceded		1
Net	70	
Losses paid:		
Direct	695	329
Ceded	(118)	(63)
Net	577	266
Ending reserves:		
Direct	3,728	4,447
Ceded	(501)	(662)
Net	\$ 3,227	\$ 3,785

See [Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves](#).

ENVIRONMENTAL CLAIMS AND LITIGATION

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

The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to environmental claims. The Company believes that some court decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions often pertain to insurance policies that were issued by the Company prior to the mid-1980s. These decisions

continue to be inconsistent and vary from jurisdiction to jurisdiction. Environmental claims when submitted rarely indicate the monetary amount being sought by the claimant from the policyholder, and the Company does not keep track of the monetary amount being sought in those few claims which indicate a monetary amount.

The resolution of environmental exposures by the Company generally occurs by settlement on a policyholder-by-policyholder basis as opposed to a claim-by-claim basis. Generally, the Company strives to extinguish any obligations it may have under any policy issued to the policyholder for past, present and future environmental liabilities and extinguish any pending coverage litigation dispute with the policyholder. This form of settlement is commonly referred to as a buy-back of policies for future environmental liability. In addition, many of the agreements have also extinguished any insurance obligation which the Company may have for other claims, including but not limited to asbestos and other cumulative injury claims. The Company and its policyholders may also agree to settlements which extinguish any liability arising from known specified sites or claims. These agreements also include appropriate indemnities and hold harmless provisions to protect the Company. The Company's general purpose in executing these agreements is to reduce the Company's potential environmental exposure and eliminate the risks presented by coverage litigation with the policyholder and related costs.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

In establishing environmental reserves, the Company evaluates the exposure presented by each policyholder and the anticipated cost of resolution, if any. In the course of this analysis, the Company generally considers the probable liability, available coverage, relevant judicial interpretations and historical value of similar exposures. In addition, the Company considers the many variables presented, such as the nature of the alleged activities of the policyholder at each site; the allegations of environmental harm at each site; the number of sites; the total number of potentially responsible parties at each site; the nature of environmental harm and the corresponding remedy at each site; the nature of government enforcement activities at each site; the ownership and general use of each site; the overall nature of the insurance relationship between the Company and the policyholder, including the role of any umbrella or excess insurance the Company has issued to the policyholder; the involvement of other insurers; the potential for other available coverage, including the number of years of coverage; the role, if any, of non-environmental claims or potential non-environmental claims in any resolution process; and the applicable law in each jurisdiction. Conventional actuarial techniques are not used to estimate these reserves.

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

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

The Company continues to receive notices from policyholders tendering claims for the first time. These policyholders generally present smaller exposures, have fewer sites and are lower tier defendants. Further, in many instances clean-up costs have been reduced because regulatory agencies are willing to accept risk-based site analyses and more efficient clean-up technologies. However, the Company has experienced upward development in the anticipated defense and settlement costs for certain of its pending policyholders. As a result of this development, the Company increased its environmental reserve by \$85 million in the second quarter of 2008.

Net paid losses in the first nine months of 2008 and 2007 were \$90 million and \$91 million, respectively. At September 30, 2008, approximately 89% of the net environmental reserve (approximately \$434 million) was carried in a bulk reserve and included unresolved environmental claims, incurred but not reported environmental claims and the anticipated cost of coverage litigation disputes relating to these claims. The bulk reserve the Company carries is established and adjusted based upon the aggregate volume of in-process environmental claims and the Company's experience in resolving those claims. The balance, approximately 11% of the net environmental reserve (approximately \$51 million), consists of case reserves.

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

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

(at and for the nine months ended September 30, in millions)	2008	2007
Beginning reserves:		
Direct	\$ 478	\$ 413
Ceded	12	5
Net	490	418
Incurred losses and loss expenses:		
Direct	85	182
Ceded		3
Net	85	185
Losses paid:		
Direct	91	97
Ceded	(1)	(6)
Net	90	91
Ending reserves:		
Direct	472	498
Ceded	13	14
Net	\$ 485	\$ 512

UNCERTAINTY REGARDING ADEQUACY OF ASBESTOS AND ENVIRONMENTAL RESERVES

As a result of the processes and procedures described above, management believes that the reserves carried for asbestos and environmental claims at September 30, 2008 are appropriately established based upon known facts, current law and management's judgment. However, the uncertainties surrounding the final resolution of these claims continue, and it is difficult to determine the ultimate exposure for asbestos and environmental claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in complex litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in asbestos and environmental claims beyond that which is anticipated, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of some disputes pertaining to the amount of available coverage for asbestos and environmental claims in a manner inconsistent with the Company's previous assessment of these claims, the number and outcome of direct actions against the Company and future developments pertaining to the Company's ability to recover reinsurance for asbestos and environmental claims. The Company's asbestos and environmental related claims and claim adjustment expense experience has been impacted by the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers. In addition, uncertainties arise from the insolvency or bankruptcy of policyholders and other defendants, although the Company has noted a decrease in the number and volatility of asbestos-related bankruptcies. It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development of asbestos and environmental claims. This development will be affected by future court and regulatory decisions and interpretations, as well as changes in applicable legislation. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing

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settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos and environmental reserves, the Company continues to study the implications of these and other developments. (Also, see Part II Item 1, Legal Proceedings).

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

INVESTMENT PORTFOLIO

The majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid intermediate-term taxable U.S. government, tax-exempt U.S. municipal bonds, and taxable corporate and mortgage-backed bonds. As a result of recent financial market disruption and related credit spread widening, these securities, with the exception of U.S. government bonds, are generally trading at lower values.

The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company's insurance and debt obligations. The weighted average credit quality of the Company's fixed maturity portfolio, both including and excluding U.S. Treasury securities, was Aa1 at September 30, 2008 and December 31, 2007. Below investment grade securities represented 2.4% and 2.5% of the total fixed maturity investment portfolio at September 30, 2008 and December 31, 2007, respectively.

The Company's fixed maturity investment portfolio at September 30, 2008 included securities issued by numerous municipalities, a number of which were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default. The downgrade of credit ratings of insurers of these securities has resulted in a corresponding downgrade in the ratings of the securities to the underlying rating of the respective security. Of the insured municipal securities in the Company's investment portfolio, approximately 98% were rated at A3 or above, and approximately 80% were rated at Aa3 or above, without the benefit of insurance. The Company believes that a further loss of the benefit of insurance would not result in a material adverse impact on the Company's results of operations, financial position or liquidity, due to the underlying credit strength of the issuers of the securities, as well as the Company's ability and intent to hold the securities. The average credit rating of the underlying issuers of these securities was Aa3 at September 30, 2008.

At September 30, 2008 and December 31, 2007, the Company held commercial mortgage-backed securities (CMBS, including FHA project loans) of \$813 million and \$935 million, respectively. At September 30, 2008, approximately \$265 million of these securities, or the loans backing such securities, contain guarantees by the United States Government or a government-sponsored enterprise and \$23 million were comprised of Canadian non-guaranteed securities. The average credit rating of the \$548 million of non-guaranteed securities at September 30, 2008 was Aaa, and 94% of those securities were issued in 2004 and prior years. The CMBS portfolio is supported by loans that are diversified across economic sectors and geographical areas. The Company does not believe this portfolio exposes it to a material adverse impact on its results of operations, financial position or liquidity, due to the underlying credit strength of these securities.

The Company makes investments in collateralized mortgage obligations (CMOs) that typically have high credit quality, offer good liquidity and are expected to provide an advantage in yield compared to U.S. Treasury securities. The Company's investment strategy is to purchase CMO tranches which offer the most favorable return given the risks involved. One significant risk evaluated is prepayment sensitivity. While prepayment risk (either shortening or lengthening of duration) and its effect on total return cannot be fully controlled, particularly when interest rates move dramatically, the investment process generally favors securities that control this risk within expected interest rate ranges. The

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Company does invest in other types of CMO tranches if a careful assessment indicates a favorable risk/return tradeoff. The Company does not purchase residual interests in CMOs.

At September 30, 2008 and December 31, 2007, the Company held CMOs classified as available for sale with a fair value of \$3.09 billion and \$3.59 billion, respectively (in addition to the CMBS securities of \$813 million and \$935 million, respectively, described above). Approximately 32% and 31% of the Company's CMO holdings are guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC at September 30, 2008 and December 31, 2007, respectively. In addition, the Company held \$3.20 billion and \$3.52 billion of GNMA, FNMA, FHLMC (excluding FHA project loans which are included with CMBS) mortgage-backed pass-through securities classified as available for sale at September 30, 2008 and December 31, 2007, respectively. The average credit rating of all of the above securities was Aaa at both dates.

The Company's fixed maturity investment portfolio at September 30, 2008 and December 31, 2007 included asset-backed securities collateralized by sub-prime mortgages and collateralized mortgage obligations backed by alternative documentation mortgages with a collective market value of \$254 million and \$286 million, respectively (comprising approximately 0.4% of the Company's total fixed maturity investments at both dates). The disruption in secondary investment markets for mortgage-backed securities provided the Company with the opportunity to selectively acquire additional asset-backed securities collateralized by sub-prime mortgages at discounted prices. The Company purchased \$47 million and \$89 million of such securities in the first nine months of 2008 and the fourth quarter of 2007, respectively. The Company defines sub-prime mortgage-backed securities as investments in which the underlying loans primarily exhibit one or more of the following characteristics: low FICO scores, above-prime interest rates, high loan-to-value ratios or high debt-to-income ratios. Alternative documentation securitizations are those in which the underlying loans primarily meet the government-sponsored entity's requirements for credit score but do not meet the government-sponsored entity's guidelines for documentation, property type, debt and loan-to-value ratios. The average credit rating on these securities and obligations held by the Company was Aaa at September 30, 2008 and December 31, 2007. Approximately \$65 million of asset-backed securities collateralized by sub-prime and alternative documentation mortgages were downgraded in the first nine months of 2008. An additional \$10 million of such securities were placed on credit watch in the first nine months of 2008.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

The Company's other investments are primarily comprised of venture capital, through direct ownership and limited partnerships, private equity limited partnerships, joint ventures, other limited partnerships and trading securities, which are subject to more volatility than the Company's fixed income investments. While these assets classes have historically provided a higher return than fixed maturities, in 2008 the returns have been significantly lower than in prior periods, reflecting market conditions. At September 30, 2008 and December 31, 2007, the carrying value of the Company's other investments was \$3.31 billion and \$3.37 billion, respectively.

The Company engages in securities lending activities from which it generates net investment income from the lending of certain of its investments to other institutions for short periods of time. Borrowers of these securities provide collateral equal to at least 102% of the market value of the loaned securities plus accrued interest. This collateral is held by a third-party custodian, and the Company has the right to access the collateral only in the event that the institution borrowing the Company's securities is in default under the lending agreement. Therefore, the Company does not recognize the receipt of the collateral held by the third-party custodian or the obligation to return the collateral. The loaned securities remain a recorded asset of the Company.

During the quarter ended September 30, 2008 the Company changed its securities lending requirements in light of the recent market conditions to accept only cash as collateral for securities on loan and restricted the manner in which that cash was invested. These actions resulted in a significant reduction in the amount of securities on loan. At September 30, 2008, the Company had \$15 million of securities on loan to others, compared with \$1.99 billion at December 31, 2007. The Company has not incurred any investment losses in its securities lending program in the periods presented.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations. The liquidity requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income received on investments. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable. Such claims increase liquidity requirements. The timing and amount of reinsurance recoveries may be affected by reinsurer solvency and reinsurance coverage disputes. Additionally, the variability of asbestos-related claim payments, as well as the volatility of potential judgments and settlements arising out of litigation, may also result in increased liquidity requirements. It is the opinion of the Company's management that the Company's future liquidity needs will be adequately met from all of the above sources.

At September 30, 2008, total cash, short-term invested assets and other readily marketable securities aggregating \$2.11 billion were held at the holding company. The assets held at the holding company, combined with other sources of funds available, primarily additional dividends from operating subsidiaries, are sufficient to meet the Company's current liquidity requirements. These liquidity requirements primarily include shareholder dividends and debt service. The Company has a shelf registration with the Securities and Exchange Commission which permits it to issue securities. The Company also has a line of credit facility with several major banks that expires in the second quarter of 2010. Included in

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the Company's \$1.0 billion line of credit facility is Lehman Brothers Bank, FSB, with a \$60 million participation. The Company intends to replace Lehman Brothers Bank, FSB with one or more other financial institutions. This line of credit also backs up the Company's \$800 million commercial paper program, of which \$100 million was outstanding at September 30, 2008. The Company is not reliant on its commercial paper program to meet its operating cash flow needs.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

The Company currently utilizes letters of credit issued by major banks to support its operations at Lloyd's. Due to current conditions in worldwide financial markets, the Company may be required to provide alternative means of supporting those activities. Should that occur, the Company believes it can support those activities with funds currently on hand.

Operating Activities

Net cash flows provided by operating activities in the first nine months of 2008 and 2007 totaled \$2.57 billion and \$3.94 billion, respectively. Cash flows in the first nine months of 2008 reflected an increase in claim payments (including the \$449 million asbestos settlement payment related to ACandS, Inc., which is discussed in more detail in the Asbestos Claims and Litigation section herein), and a reduction in reinsurance recoveries compared with the same 2007 period. In addition, the Company made a \$250 million contribution to its pension plan in the third quarter of 2008. No pension plan contribution was made in 2007.

Investing Activities

Net cash flows provided by investing activities in the first nine months of 2008 totaled \$1 million, compared with net cash flows used in investing activities of \$2.19 billion in the same period of 2007. Fixed maturity securities accounted for the majority of investment purchases, sales and maturities in both years.

The Company's consolidated total investments at September 30, 2008 declined \$3.62 billion from year-end 2007, reflecting the significant common share repurchases made during the first nine months of 2008, a net after-tax \$1.44 billion decline in the unrealized appreciation of investments since year-end 2007 (to an unrealized loss position at September 30, 2008) and dividends to shareholders, partially offset by investment purchases resulting from strong cash flows from operations. The net unrealized loss position at September 30, 2008 reflected the impact of rising interest rates on longer-dated fixed income securities primarily due to the widening of credit spreads.

The Company's management of the duration of the fixed income investment portfolio generally produces a duration that exceeds the estimated duration of the Company's net insurance liabilities. The average duration of fixed maturities and short-term securities was 4.1 and 4.0 at September 30, 2008 and December 31, 2007, respectively.

The primary goals of the Company's asset liability management process are to satisfy the insurance liabilities, manage the interest rate risk embedded in those insurance liabilities and maintain sufficient liquidity to cover fluctuations in projected liability cash flows. Generally, the

expected principal and interest payments produced by the Company's fixed income portfolio adequately fund the estimated runoff of the Company's insurance reserves. Although this is not an exact cash flow match in each period, the substantial degree by which the market value of the fixed income portfolio exceeds the expected present value of the net insurance liabilities, as well as the positive cash flow from newly sold policies and the large amount of high quality liquid bonds, provide assurance of the Company's ability to fund the payment of claims without having to sell illiquid assets or access credit facilities.

Financing Activities

Net cash flows used in financing activities in the first nine months of 2008 totaled \$2.45 billion, compared with \$1.82 billion in the same 2007 period. The 2008 and 2007 totals primarily reflected common share repurchases, the repayment of debt and dividends to shareholders, partially offset by the net proceeds from debt issuances and employee stock option exercises.

Debt Transactions. On March 15, 2008, the Company's \$400 million, 3.75% senior notes matured and were fully paid. On May 13, 2008, the Company issued \$500 million aggregate principal amount of 5.80% senior notes that will mature on May 15, 2018. The net proceeds of the issuance, after original issuance discount and the deduction of underwriting expenses and commissions and other expenses, totaled approximately \$496 million. Interest on the senior notes is payable semi-annually on May 15 and November 15, commencing November 15, 2008. 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 plus 30 basis points for the senior notes.

The Company's debt-to-capital ratio at September 30, 2008 was slightly below its 20% targeted level.

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

The amounts of debt obligations, other than commercial paper, that becomes due in the remainder of 2008, and all of 2009, 2010 and 2011, are \$149 million, \$143 million, \$273 million and \$11 million, respectively. The Company expects to be able to fund these obligations from internally-generated funds.

Dividends. Dividends paid to shareholders totaled \$536 million and \$557 million in the first nine months of 2008 and 2007, respectively. The declaration and payment of future dividends to holders of the Company's common stock will be at the discretion of the Company's board of directors and will depend upon many factors, including the Company's financial condition, earnings, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant. Dividends would be paid by the Company only if declared by its board of directors out of funds legally available, subject to any other restrictions that may be applicable to the Company.

Share Repurchases. In January 2008, the board of directors authorized an additional \$5 billion for 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 nine months ended September 30, 2008, the Company repurchased 42.3 million shares under its share repurchase authorization for a total cost of approximately \$2.02 billion. The average cost per share repurchased was \$47.79. At September 30, 2008, the Company had \$3.91 billion of capacity remaining under the share repurchase authorization. Share repurchase levels in prior quarters may not be indicative of future repurchase activity. Notwithstanding the Company's financial strength and liquidity, in light of the recent disruption in the financial markets the Company will likely reduce its share repurchases in the fourth quarter of 2008 as compared to the level of repurchases in the preceding several quarters, although the Company's plans may change depending on market conditions, the Company's share price performance or other factors.

The following table summarizes the components of the Company's capital structure at September 30, 2008 and December 31, 2007.

(in millions)	September 30, 2008	December 31, 2007
Debt:		
Short-term	\$ 390	\$ 652
Long-term	5,938	5,574
Net unamortized fair value adjustments and debt issuance costs	3	16
Total debt	6,331	6,242
Preferred shareholders' equity	92	112
Common shareholders' equity:		
Common stock and retained earnings, less treasury stock	25,561	25,834
Accumulated other changes in equity from nonowner sources	(932)	670
Total shareholders' equity	24,721	26,616

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Total capitalization	\$	31,052	\$	32,858
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The \$1.81 billion decrease in total capitalization from year-end 2007 reflected a net after-tax \$1.44 billion decline in net unrealized appreciation on investments (to a net unrealized loss position at September 30, 2008), the impact of common share repurchases and dividends to shareholders, partially offset by net income in the first nine months of 2008. The net unrealized loss position at September 30, 2008 reflected the impact of rising interest rates on longer-dated fixed income securities primarily due to the widening of credit spreads.

Catastrophe Reinsurance Coverage

The Company utilizes a general catastrophe reinsurance treaty with unaffiliated reinsurers to manage its exposure to losses resulting from catastrophes. In addition to the coverage provided under this treaty, the Company also utilizes a catastrophe bond program, as well as a Northeast catastrophe reinsurance treaty, to protect against losses resulting from catastrophes in the Northeastern United States. The Company's catastrophe reinsurance coverage is described in more detail in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

Table of Contents**THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES****MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued****RATINGS**

Ratings are an important factor in setting the Company's competitive position in the insurance industry. The Company receives ratings from the following major rating agencies: A.M. Best Company (A.M. Best), Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Corp. (S&P). Rating agencies typically issue two types of ratings: claims-paying (or financial strength) ratings which assess an insurer's ability to meet its financial obligations to policyholders and debt ratings which assess a company's prospects for repaying its debts and assist lenders in setting interest rates and terms for a company's short- and long-term borrowing needs. Agency ratings are not a recommendation to buy, sell or hold any security, and they may be revised or withdrawn at any time by the rating agency. Each agency's rating should be evaluated independently of any other agency's rating. The system and the number of rating categories can vary widely from rating agency to rating agency. Customers usually focus on claims-paying ratings, while creditors focus on debt ratings. Investors use both to evaluate a company's overall financial strength. The ratings issued on the Company or its subsidiaries by any of these agencies are announced publicly and are available on the Company's website and from the agencies.

The Company's insurance operations could be negatively impacted by a downgrade in one or more of the Company's financial strength or debt ratings. If this were to occur, the Company could experience a reduced demand for certain products in certain markets. Additionally, the Company's ability to access the capital markets could be impacted by a downgrade in one or more of the Company's debt ratings. If this were to occur, the Company could incur higher borrowing costs.

Claims Paying Ratings

The following table summarizes the current claims-paying (or financial strength) ratings of the Travelers Reinsurance Pool, Travelers C&S Co. of America, Travelers Personal single state companies, Travelers C&S Co. of Europe, Ltd., Travelers Guarantee Company of Canada and Travelers Insurance Company Limited as of October 22, 2008. The table also presents S&P's Lloyd's Syndicate Assessment rating for Travelers Syndicate Management - Syndicate 5000. The table presents the position of each rating in the applicable agency's rating scale.

	A.M. Best		Moody's		S&P	Fitch
Travelers Reinsurance Pool (a)(b)	A+	(2nd of 16)	Aa2	(3rd of 21)	AA- (4th of 21)	AA (3rd of 24)
Travelers C&S Co. of America	A+	(2nd of 16)	Aa2	(3rd of 21)	AA- (4th of 21)	AA (3rd of 24)
First Floridian Auto and Home Ins. Co.	A-	(4th of 16)				AA (3rd of 24)
Travelers Auto Insurance Company of New Jersey	A	(3rd of 16)				AA (3rd of 24)
Travelers of Massachusetts	A	(3rd of 16)				
Travelers C&S Co. of Europe, Ltd.	A+	(2nd of 16)	Aa2	(3rd of 21)	AA- (4th of 21)	
Travelers Guarantee Company of Canada	A	(3rd of 16)				
Travelers Insurance Company Limited	A	(3rd of 16)				
					3- (9 of 15)	

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

- (a) The Travelers Reinsurance Pool consists of: The Travelers Indemnity Company, The Charter Oak Fire Insurance Company, The Phoenix Insurance Company, The Travelers Indemnity Company of Connecticut, The Travelers Indemnity Company of America, Travelers Property Casualty Company of America, Travelers Commercial Casualty Company, TravCo Insurance Company, The Travelers Home and Marine Insurance Company, Travelers Casualty and Surety Company, Northland Insurance Company, Northfield Insurance Company, Northland Casualty Company, American Equity Specialty Insurance Company, The Standard Fire Insurance Company, The Automobile Insurance Company of Hartford, Connecticut, Travelers Casualty Insurance Company of America, Farmington Casualty Insurance Company, Travelers Commercial Insurance Company, Travelers Casualty Company of Connecticut, Travelers Property Casualty Insurance Company, Travelers Personal Security Insurance Company, Travelers Personal Insurance Company, Travelers Excess and Surplus Lines Company, St. Paul Fire and Marine Insurance Company, St. Paul Surplus Lines Insurance Company, Athena Assurance Company, St. Paul Protective Insurance Company, St. Paul Medical Liability Insurance Company, St. Paul Guardian Insurance Company, St. Paul Mercury Insurance Company, Fidelity and Guaranty Insurance Underwriters, Inc., Discover Property & Casualty Insurance Company, Discover Specialty Insurance Company and United States Fidelity and Guaranty Company.
- (b) The following affiliated companies are 100% reinsured by one of the pool participants noted in (a) above: Atlantic Insurance Company, Fidelity and Guaranty Insurance Company, Gulf Underwriters Insurance Company, American Equity Insurance Company, Select Insurance Company, St. Paul Fire and Casualty Insurance Company, The Travelers Lloyds Insurance Company and Travelers Lloyds of Texas Insurance Company. In addition, Seaboard Surety Company, an affiliated company, is 90% reinsured by The Travelers Indemnity Company, one of the pool participants noted in (a) above.

Debt Ratings

The following table summarizes the current debt, preferred stock and commercial paper ratings of the Company and its subsidiaries as of October 22, 2008. The table also presents the position of each rating in the applicable agency's rating scale.

	A.M. Best		Moody's		S&P		Fitch	
Senior debt	a-	(7th of 22)	A2	(6th of 21)	A-	(7th of 22)	A	(6th of 24)
Subordinated debt	bbb+	(8th of 22)	A3	(7th of 21)	BBB+	(8th of 22)	A-	(7th of 24)
Junior subordinated debt	bbb	(9th of 22)	A3	(7th of 21)	BBB	(9th of 22)	A-	(7th of 24)
Trust preferred securities	bbb	(9th of 22)	A3	(7th of 21)	BBB	(9th of 22)	A-	(7th of 24)
Preferred stock	bbb	(9th of 22)	Baa1	(8th of 21)	BBB	(9th of 22)		
Commercial paper	AMB-1	(2nd of 6)	P-1	(1st of 3)	A-2	(3rd of 10)	F-1	(2nd of 7)

Rating Agency Actions

The following rating agency action was taken with respect to the Company from July 1, 2008 through October 22, 2008:

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- On August 14, 2008, Standard & Poor's affirmed the financial strength rating of 3- for Travelers Syndicate Management Limited Syndicate 5000. The outlook is stable.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

CRITICAL ACCOUNTING ESTIMATES

The Company considers its most significant accounting estimates to be those applied to claims and claim adjustment expense reserves and related reinsurance recoverables, investment impairments and goodwill impairments.

Claims and Claim Adjustment Expense Reserves

Claims and claim adjustment expense reserves (loss reserves) represent management's estimate of ultimate unpaid costs of losses and loss adjustment expenses for claims that have been reported and claims that have been incurred but not yet reported. Loss reserves do not represent an exact calculation of liability, but instead represent management estimates, generally utilizing actuarial expertise and projection techniques, at a given accounting date. These loss reserve estimates are expectations of what the ultimate settlement and administration of claims will cost upon final resolution in the future, based on the Company's assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity and frequency, expected interpretations of legal theories of liability and other factors. In establishing loss reserves, the Company also takes into account estimated recoveries, reinsurance, salvage and subrogation. The loss reserves are reviewed regularly by qualified actuaries employed by the Company.

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

Because establishment of loss reserves is an inherently uncertain process involving estimates, currently established loss reserves may change. The Company reflects adjustments to loss reserves in the results of operations in the period the estimates are changed.

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

A portion of the Company's gross claims and claim adjustment expense reserves are for asbestos and environmental claims and related litigation, which totaled \$4.20 billion at September 30, 2008. While the ongoing review of asbestos claims and associated liabilities and of environmental claims considers the inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of the Company's management, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could be material to the Company's future operating results. See the preceding discussion of Asbestos Claims and Litigation and Environmental Claims and Litigation.

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

(in millions)	September 30, 2008			December 31, 2007		
	Case	IBNR	Total	Case	IBNR	Total
General liability	\$ 6,859	\$ 11,771	\$ 18,630	\$ 7,180	\$ 12,388	\$ 19,568
Property	1,213	1,108	2,321	1,069	963	2,032
Commercial multi-peril	2,018	2,094	4,112	1,860	2,499	4,359
Commercial automobile	2,422	1,584	4,006	2,450	1,640	4,090
Workers compensation	9,478	6,778	16,256	9,373	6,474	15,847
Fidelity and surety	725	1,200	1,925	878	1,026	1,904
Personal automobile	1,445	1,027	2,472	1,466	998	2,464
Homeowners and personal other	584	1,007	1,591	545	739	1,284
International and other	2,775	2,860	5,635	3,054	3,017	6,071
Property-casualty	27,519	29,429	56,948	27,875	29,744	57,619
Accident and health	69	10	79	71	10	81
Claims and claim adjustment expense reserves	\$ 27,588	\$ 29,439	\$ 57,027	\$ 27,946	\$ 29,754	\$ 57,700

The \$673 million decline in gross claims and claim adjustment expense reserves since December 31, 2007 primarily reflected significant favorable prior year reserve development during the first nine months of 2008 and payments related to operations in runoff (including asbestos and environmental payments), partially offset by catastrophe losses incurred. It should be noted that during the third quarter of 2008, the Company made a \$449 million settlement payment related to ACandS, Inc., formerly a national distributor and installer of products containing asbestos, that reduced claim and claim adjustment expense reserves. (Also, see Part II Item 1, Legal Proceedings).

Asbestos and environmental reserves are included in the General liability, Commercial multi-peril lines and International and other lines in the summary table. Asbestos and environmental reserves are discussed separately; see Asbestos Claims and Litigation , Environmental Claims and Litigation and Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.

General Discussion

The process for estimating the liabilities for claims and claim expenses begins with the collection and analysis of claim data. Data on individual reported claims, both current and historical, including paid amounts and individual claim adjuster estimates, are grouped by common characteristics (components) and evaluated by actuaries in their analyses of ultimate claim liabilities by product line. Such data is occasionally supplemented with external data as available and when appropriate. The process of analyzing reserves for a component is undertaken on a regular basis, generally quarterly, in light of continually updated information.

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

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

Property casualty insurance policies are either written on a claims made or on an occurrence basis. Policies written on a claims made basis require that claims be reported during the policy period. Policies that are written on an occurrence basis require that the insured demonstrate that a loss occurred in the policy period, even if the insured reports the loss many years later.

Most general liability policies are written on an occurrence basis. These policies are subject to substantial loss development over time as facts and circumstances change in the years following the policy issuance. The use of the occurrence form accounts for much of the reserve development in asbestos and environmental exposures, and it is also used to provide coverage for construction general liability, including construction defect. Occurrence-based forms of insurance for general liability exposures require substantial projection of various trends, including future inflation and judicial interpretations and societal litigation dynamics, among others.

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

Informed judgment is applied throughout the reserving process. This includes the application of various individual experiences and expertise to multiple sets of data and analyses. In addition to actuaries, experts involved with the reserving process also include underwriting and claims personnel and lawyers, as well as other company management. Therefore, management may have to consider varying individual viewpoints as part of its estimation of loss reserves. It is also likely that during periods of significant change, such as a merger, consistent application of informed judgment becomes even more complicated and difficult.

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

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

The longer the time before final claim resolution, the greater the exposure to estimation risks and hence the greater the estimation uncertainty.

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

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

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

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

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

Risk Factors

The major causes of material uncertainty (risk factors) generally will vary for each product line, as well as for each separately analyzed component of the product line. In a few cases, such risk factors are explicit assumptions of the estimation method and in most cases, they are implicit. For example, a method may explicitly assume that a certain percentage of claims will close each year, but will implicitly assume that the legal interpretation of existing contract language will remain unchanged. Actual results will likely vary from expectations for each of these assumptions, resulting in an ultimate claim liability that is different from that being estimated currently.

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

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

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

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

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

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Actuarial Methods for Analyzing and Estimating Claims and Claim Adjustment Expense Reserves

The principal estimation and analysis methods utilized by the Company's actuaries are the paid development method, the case incurred development method, the Bornhuetter-Ferguson (BF) method, and average value analysis combined with the reported claim development method. The BF method is usually utilized for more recent accident periods, with a transition to other methods as the underlying claim data becomes more voluminous and therefore more credible. These are typically referred to as traditional actuarial methods. (See Glossary in the Company's 2007 Annual Report on Form 10-K for an explanation of these methods.)

While these are the principal methods utilized throughout the Company, those evaluating a particular component for a product line have available to them the full range of methods developed within the casualty actuarial profession. The Company's actuaries are also continually monitoring developments within the profession for advances in existing techniques or the creation of new techniques that might improve current and future estimates.

Some components of product line reserves are susceptible to relatively infrequent large claims that can materially impact the total estimate for that component. In such cases, the Company's actuarial analysis generally isolates and analyzes separately such large claims. The reserves excluding such large claims are generally analyzed using the traditional methods described above. The reserves associated with large claims are then analyzed utilizing various methods, such as:

- Estimating the number of large claims and their average values based on historical trends from prior accident periods, adjusted for the current environment and supplemented with actual data for the accident year analyzed to the extent available.
- Utilizing individual claim adjuster estimates of the large claims, combined with continual monitoring of the aggregate accuracy of such claim adjuster estimates. (This monitoring may lead to supplemental adjustments to the aggregate of such claim estimates.)
- Utilizing historic longer-term average ratios of large claims to small claims, and applying such ratios to the estimated ultimate small claims from traditional analysis.
- Ground-up analysis of the underlying exposure (typically used for asbestos and environmental).

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

The above is generally utilized to evaluate management's existing estimate for prior accident periods. For the initial estimate of the current accident year, the available claim data is typically insufficient to produce a reliable indication. Hence, the initial estimate for an accident year is generally based on a loss ratio projection method, which uses the earned premium for the current year multiplied by a projected loss ratio. The

projected loss ratio is determined through analysis of prior experience periods using loss trend, rate level differences, mix of business changes and other known or observed factors influencing the current accident year relative to prior accident years. The exact number of prior accident years utilized varies by product line component, based on the volume of business for that component and the reliability of an individual accident year estimate.

Management's Estimates

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

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

Reinsurance Recoverables

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

(in millions)	September 30, 2008	December 31, 2007
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	\$ 10,331	\$ 10,731
Allowance for uncollectible reinsurance	(707)	(688)
Net reinsurance recoverables	9,624	10,043
Structured settlements	3,540	3,615
Mandatory pools and associations	1,944	1,983
Total reinsurance recoverables	\$ 15,108	\$ 15,641

The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. From time to time, the Company considers the commutation of reinsurance contracts. Changes in estimated reinsurance recoverables and commutation activity could result in additional income statement charges.

The following table presents the Company's top five reinsurer groups by reinsurance recoverable at September 30, 2008 and December 31, 2007 (in millions). Also included is the A.M. Best rating of each reinsurer group at October 22, 2008:

Reinsurer Group	September 30, 2008	December 31, 2007	A.M. Best Rating of Group's Predominant Reinsurer
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Swiss Re Group	\$	1,123	\$	1,266	A+	second highest of 16 ratings
Munich Re Group		877		994	A+	second highest of 16 ratings
Berkshire Hathaway Group		563		591	A++	highest of 16 ratings
Transatlantic Holdings, Inc.(1)		519		475	A	third highest of 16 ratings
XL Capital Group		502		511	A	third highest of 16 ratings

- (1) As a result of the September 29, 2008 announcement that a Special Committee of Transatlantic Holdings, Inc.'s (TRH) independent directors is evaluating proposals received from American International Group, Inc. (AIG) relating to the possible disposition of AIG's 59% common stock interest in TRH, as well as possible business combination transactions involving TRH's outstanding shares, the reinsurance recoverables from TRH are now being reported separately. These amounts were previously reported combined with the reinsurance recoverables from AIG (totaling \$69 million and \$78 million at September 30, 2008 and December 31, 2007 exclusive of TRH, respectively).

Structured settlements represent recoverables from annuities that were purchased from life insurance companies to settle personal physical injury claims, with workers' compensation claims comprising a significant proportion. In cases where the Company did not receive a release from the claimant, the Company retains the liability to the claimant in the event that the life company fails to pay; accordingly, the Company continues to report the amount due from the life company as a liability and as a recoverable for GAAP purposes. The following table presents the Company's top five groups by structured settlements at September 30, 2008 and December 31, 2007 (in millions). Also included is the A.M. Best rating of the Company's predominant insurer from each insurer group at October 22, 2008:

Group	September 30, 2008	December 31, 2007	A.M. Best Rating of Group's Predominant Insurer
Old Mutual	\$ 1,081	\$ 1,087	A
Metlife	562	578	A+
Genworth	489	496	A+
Symetra	300	307	A
ING Group	243	248	A+

Investment Valuation and Impairments

Fair Value Measurements

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in FAS 157. The framework is based on the inputs used in valuation and 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 FAS 157 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 assumptions that market participants would use.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Valuation of Investments Reported at Fair Value in Financial Statements

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 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. The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value.

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, which the Company bases on bid price, may differ from the amount that could be realized if the security was sold immediately. Additionally, the valuation of fixed income 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 (i.e., the carrying amount) of an investment is not reflective of the price at which an actual transaction would occur.

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.

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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 reviews the estimates of fair value provided by the pricing service and compares the estimates to the Company's knowledge of the market to determine if the estimates obtained are representative of the prices in the market. The Company produces a report monthly that lists all price changes from the previous month in excess of 5%. The Company reviews the report and will challenge any prices deemed not to be representative of fair value. In addition, the Company has implemented a process to randomly select purchased or sold securities and compare execution prices to the estimates from the pricing service. This process was implemented in mid-2007 and has not highlighted any issues with the fair value estimates from the pricing service.

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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

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.

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

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 estimate in the amount disclosed in Level 2.

The Company holds investments in non-public common and preferred stocks (private equities), with a fair value estimate of \$251 million, 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. The Company holds one private common stock with a fair value estimate of \$184 million at September 30, 2008, for which the estimate of fair value is provided by a third party appraiser on behalf of the investee and adjusted for a liquidity discount which takes into consideration the restriction on the common stock. 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, 2008 in the amount disclosed in Level 3.

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 less than \$1 million at September 30, 2008 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 \$78 million at September 30, 2008 in the amount disclosed in Level 3. The Company bifurcates the embedded conversion options based on observable market inputs and includes the estimate of fair value in Level 2.

Valuation of Investments Not Reported at Fair Value in Financial Statements

Short-term Securities

The Company's short-term investments consist mainly of A1/P1 commercial paper with a remaining term of 31.6 days at September 30, 2008. Additionally, it is the Company's policy to not invest in structured products for its short term investments. The Company believes that there is insignificant credit risk in its short-term portfolio and that amortized cost approximates fair value. The Company includes short-term investments in its impairment monitoring to identify any credit issues.

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Real Estate

Real estate is recorded on the purchase date at the purchase price, which generally represents fair value, and is supported by internal analysis or external appraisals, using discounted cash flow analyses and other acceptable valuation techniques. Real estate is subsequently carried at the Company's cost, net of depreciation.

Other Investments

The Company's investment portfolio includes other investments not carried at fair value which include private equity limited partnerships, joint ventures, other limited partnerships and mortgage loans. The Company uses the equity method of accounting for these private equity limited partnerships, joint ventures and other limited partnerships, and amortized cost is used for mortgage loans.

Investment Impairments

The Company recognizes an impairment loss when an invested asset's value declines below cost, adjusted for accretion, amortization and previous other-than-temporary impairments (new cost basis), and it is determined that the decline is other-than-temporary. Some of the factors considered in evaluating whether a decline in fair value is other-than-temporary include: 1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the recoverability of principal and interest; 3) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities, or cost for equity securities; and 4) 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. When the Company determines that an invested asset is other-than-temporarily impaired, the invested asset is written down to fair value, and the amount of the impairment is included in earnings as a realized investment loss. The fair value then becomes the new cost basis of the investment, and any subsequent recoveries in fair value, other than increases in value resulting from resetting the yield on the impaired securities, are recognized at disposition.

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

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

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

Sales of Temporarily Impaired Invested Assets

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that were considered temporarily impaired at the balance sheet date. Such sales are generally due to events occurring subsequent to the balance sheet date that result in a change in the Company's intent or ability to hold an invested asset. The types of events that may result in a sale include significant changes in the economic facts and circumstances related to the invested asset, significant unforeseen changes in the Company's liquidity needs, or changes in tax laws or the regulatory environment.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Fixed Maturities and Equity Securities

An investment in a fixed maturity or equity security which is available for sale is impaired if its fair value falls below its cost or new cost basis, and the decline is considered to be other-than-temporary. A fixed maturity security is other-than-temporarily impaired if it is probable that the Company will not be able to collect all amounts due under the security's contractual terms or where the Company does not have the intent to hold the security. Equity securities are other-than-temporarily impaired when it becomes apparent that the Company will not recover its cost over the forecasted recovery period.

Further, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover prior to the expected date of sale. Additionally, for certain securitized financial assets with contractual cash flows (including asset-backed securities), the Company periodically updates its best estimate of cash flows over the life of the security. If management determines that the fair value of a securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, then an other-than-temporary impairment is recognized.

Real Estate Investments

The carrying value of a real estate property is reviewed for impairment on a quarterly basis or when events or changes in circumstances indicate that the carrying amount may not be recoverable. The review for impairment includes an estimate of the undiscounted cash flows expected to result from the use and eventual disposition of the real estate property. An impairment loss is recognized if the expected future undiscounted cash flows are less than the carrying value of the real estate property. The impairment loss is measured as the amount by which the carrying amount exceeds fair value. On at least an annual basis, the Company obtains independent appraisals for principally all of its real estate investments.

Other Investments

Non-publicly traded investments and venture capital investments are reviewed quarterly for other-than-temporary impairment by the external fund manager and the Company's portfolio managers. An impairment loss is recognized if, based on the specific facts and circumstances, it is probable that the Company will not be able to recover all of the cost of an individual holding. Also included in other investments are partnership investments and investments in limited liability companies (together, partnerships) that generally report investments on their balance sheet at fair value. The managers/general partners of the private equity partnerships provide financial information quarterly which is generally available to investors, including the Company, within three

to six months following the date of the reporting period. Certain limited partnerships provide financial information monthly which is available to investors within one month following the date of the reporting period. The Company reviews these investments for impairment no less frequently than quarterly and monitors the performance throughout the year through discussions with the managers/general partners. If the Company becomes aware of an other-than-temporary impairment of a partnership investment at the balance sheet date prior to receiving financial information, it will record an impairment charge consistent with the Company's impairment policy.

The following table summarizes for all fixed maturities and equity securities available for sale and for equity securities reported at fair value for which fair value is less than 80% of amortized cost at September 30, 2008, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

(in millions)	Period For Which Fair Value Is Less Than 80% of Amortized Cost				Total
	Less Than 3 Months	Greater Than 3 Months, Less Than 6 Months	Greater Than 6 Months, Less Than 12 Months	Greater Than 12 Months	
Fixed maturities	\$ 188	\$ 55	\$	\$	\$ 243
Equity securities	24	3			27
Total	\$ 212	\$ 58	\$	\$	\$ 270

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Intangible Impairments

The Company performs a review, on at least an annual basis, of goodwill held by its reporting units, which are the Company's three operating and reportable segments: Business Insurance; Financial, Professional & International Insurance; and Personal Insurance.

The impairment test of goodwill is a two-step process. The first step is to identify any potential impairment using a multiple-of-earnings approach to estimate the fair value of the reporting units. The fair values of the reporting units are then compared to their carrying value, including goodwill. If the carrying amounts of the reporting units exceed their fair value, a second step is performed to measure the amount of impairment, if any.

Other indefinite-lived intangible assets held by the Company are also reviewed for impairment on at least an annual basis. The classification of the asset as indefinite-lived is reassessed, and an impairment is recognized if the carrying amount of the asset exceeds its fair value.

OTHER MATTERS

Unresolved Staff Comments

On July 23, 2004, the Company announced that it was seeking guidance from the staff of 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 (\$1.07 billion after-tax). The Company recorded these adjustments as charges in its consolidated statement of income in the second quarter of 2004. Through an informal comment process, the staff of the Division of Corporation Finance subsequently asked for further information, which the Company provided. Specifically, the staff asked for information concerning the Company's adjustments to certain of SPC's insurance reserves and reserves for reinsurance recoverables and premiums due from policyholders, and how those adjustments may relate to SPC's reserves for periods prior to the merger of SPC and TPC. After reviewing the staff's questions and comments and discussions with the Company's independent auditors, the Company continues to believe that its accounting treatment for these adjustments is appropriate. If, however, the staff disagrees, some or all of the adjustments being discussed may not be recorded as charges in the Company's consolidated statement of income, thereby increasing net income for the second quarter and full year 2004 and increasing shareholders' equity at September 30, 2008 and December 31, 2007, 2006, 2005 and 2004, in each case by the approximate after-tax amount of the change. The effect on tangible shareholders' equity (adjusted for the effects of deferred taxes associated with goodwill and other intangible assets) at September 30, 2008 and December 31, 2007, 2006, 2005 and 2004 would not be material.

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Increases to goodwill and deferred tax liabilities would be reflected on the Company's balance sheet as of April 1, 2004, either due to purchase accounting or adjustment of SPC's reserves prior to the merger of SPC and TPC. On May 3, 2006, the Company received a letter from the Division of Enforcement of the SEC (the Division) advising the Company that it is conducting an inquiry relating to the second quarter 2004 adjustments and the April 1, 2004 merger between SPC and TPC. The Company has cooperated with the Division's requests for information.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See note 1 to the consolidated financial statements for a discussion of recently issued accounting pronouncements.

OUTLOOK

The Company's objective is to enhance its position as a consistently profitable market leader and a cost-effective provider of property and casualty insurance in the United States and in selected international markets. A variety of factors continue to affect the property and casualty insurance market and the Company's core business outlook for the remainder of 2008 and into 2009, including general economic conditions, competitive conditions in the markets served by the Company's business segments, loss cost trends, interest rate trends and the investment environment.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

OUTLOOK, Continued

General Economic Conditions. The United States and other countries around the world have been experiencing deteriorating economic conditions, including unprecedented financial market disruption. If this trend in economic conditions continues or deteriorates further through 2008 and into 2009, it could adversely affect the Company's results in future periods. During an economic downturn, demand for the Company's products may decrease, and credit risk associated with agents, customers, reinsurers and the Company's investment portfolio may be adversely impacted. In the third quarter of 2008, the Company recorded pretax impairments in its investment portfolio of \$156 million. In addition, in an inflationary environment, loss costs may increase. Moreover, although the Company does not anticipate needing additional capital in the near term due to the Company's strong current financial position, financial market disruption may make it difficult for the insurance industry generally, and the Company in particular, to raise additional capital, when needed, on acceptable terms or at all. As discussed below, losses on the Company's investment portfolio may adversely impact the Company's equity capital. As further discussed below, the interest rate environment and general economic conditions could further impact the net investment income the Company is able to earn on both its fixed income investments and other invested assets.

Competition. The Company expects property casualty insurance market conditions to continue to become modestly more competitive through 2008 and into 2009, particularly for new business. If the current disruption in the insurance marketplace continues through the remainder of 2008 and into 2009, there may be increased opportunity for new business, but competition for that new business may also be significant. The pricing environment for new business generally has less of an impact on underwriting profitability than renewal price changes, particularly in an environment of high retention rates, which the Company has experienced over the past several years. In the Business Insurance and the Financial, Professional & International Insurance (excluding International) segments, the Company expects renewal price changes in the remainder of 2008 and into 2009 will modestly decline from their 2007 levels. In the International group, the Company expects renewal price changes in the remainder of 2008 and into 2009 to be flat or to increase slightly compared to their 2007 levels. In the Personal Insurance segment in the remainder of 2008 and into 2009, the Company expects that automobile and homeowners renewal price changes will increase slightly compared to their 2007 levels. These expectations for the pricing environment, when combined with expected modestly increased loss costs, will likely result in somewhat reduced underwriting profitability.

Loss Cost Trends. Loss cost trends are primarily driven by changes in claim frequency and claim severity. The industry has generally experienced unprecedented low levels of non-catastrophe-related claim frequency over the last several years. The Company expects this level of claim frequency to continue in the remainder of 2008 and into 2009 in certain lines of business, while claim frequency is expected to increase modestly for other lines of business. The Company also expects severity to increase modestly for non-catastrophe-related claims. In the Business Insurance and Financial, Professional & International Insurance segments, the Company has experienced a higher than anticipated level of large, non weather-related losses during the first nine months of 2008. If this is a trend that continues through

the remainder of 2008 and into 2009, it could result in reduced underwriting profit during those periods. In addition, current economic conditions could increase the likelihood of an inflationary environment.

The Company believes that the overall trend of increased frequency and severity of catastrophic Gulf and Atlantic Coast storms experienced in recent years may continue for the foreseeable future. Given the potential increase in frequency and severity of storms, the Company will continue to reassess its definition of, and exposure to, coastal risks. These risks will be reflected in the pricing and terms and conditions it will offer in coastal areas. Due in part to the increased frequency and severity of the Gulf and Atlantic Coast storms, there has been some disruption in the market for coastal wind insurance, most significantly in personal lines, as insurers, including the Company, have reduced capacity and increased prices. The continued disruption in market conditions, along with the potential for increased frequency and severity of coastal storms, could result in a decrease in the amount of coastal wind coverage that the Company is able or willing to write.

In recent periods, the Company has recorded net favorable prior year reserve development, driven by better than expected loss experience in all of the Company's segments for prior loss years. If better than expected loss experience continues, the Company may record additional net favorable prior year reserve development in the remainder of 2008 and in 2009. In that case, the Company may also concurrently revise favorably its current year loss estimates. However, better than expected loss experience may not continue or may reverse, in which case the Company may record no favorable prior year reserve development or net unfavorable prior year reserve development in future periods. In that case, the Company may revise current year loss estimates upward in future periods.

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OUTLOOK, Continued

Interest Rate Trends and the Investment Environment. Changes in the general interest rate environment affect the returns available on new investments. While a rising interest rate environment enhances the returns available on new fixed income investments, thereby favorably impacting net investment income, it reduces the market value of existing fixed maturity investments, and therefore, shareholders' equity. A decline in interest rates reduces the returns available on new investments, thereby negatively impacting net investment income, but increases the market value of existing investments and therefore, shareholders' equity. In 2007 and in the first nine months of 2008, short-term interest rates declined, reducing the interest income on the Company's short-term investment portfolio. In the third quarter of 2008, credit spreads on other than short-term investments, which represent the difference between a risk-free yield (i.e. the yield on U.S. Treasury securities) and the actual yield on a fixed-income investment, increased significantly. This resulted in a decline in the market value of existing other than short-term fixed maturity investments, and therefore, shareholders' equity. The Company had a net unrealized loss of \$1.41 billion in its fixed maturities portfolio at September 30, 2008, compared with a net unrealized loss of \$73 million at June 30, 2008. If interest rates rise further, significant additional unrealized losses could occur in the portfolio.

At September 30, 2008, approximately 5% of the Company's invested assets were comprised of equity securities, venture capital investments, private equity limited partnerships, joint ventures, other limited partnerships and trading securities, which are subject to greater volatility than fixed income investments. General economic conditions, stock market conditions and many other factors beyond the Company's control may affect the value of these non-fixed income investments and the realization of net investment income. For example, reduced liquidity in the capital markets could adversely impact the Company's investment portfolio, particularly private equity investments and investments in hedge funds, resulting in a decline in transaction volume in these asset classes, and as a result, lower net investment income. The Company is not able to predict future market conditions or their impact on net investment income.

Net investment income is an important contributor to the Company's results of operations, and the Company expects the investment environment to remain challenging during the remainder of 2008 and into 2009, particularly with respect to its non-fixed income investment portfolio.

FORWARD-LOOKING STATEMENTS

This report contains, and management may make, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Specifically, earnings guidance, statements about the Company's share repurchase plans and statements about the potential impact of the recent disruption in the investment markets and other economic conditions on the Company's investment portfolio and underwriting results are forward looking, and the Company may make forward-looking statements about its results of operations (including, among others, premium volume, net and operating income, investment income, return on equity, expected current returns and combined ratio), and financial condition (including, among others, invested assets and liquidity); the sufficiency of its asbestos and other reserves (including, among others, asbestos claim payment patterns); the cost and availability of reinsurance coverage; catastrophe losses; investment performance; investment, economic and underwriting market

conditions; and strategic initiatives. Such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the Company's control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Some of the factors that could cause actual results to differ include, but are not limited to, the following: catastrophe losses could materially and adversely affect the Company's results of operations, its financial position and/or liquidity and could adversely impact its ratings, the Company's ability to raise capital and the availability and cost of reinsurance; if actual claims exceed the Company's loss reserves, or if changes in the estimated level of loss reserves are necessary, the Company's financial results could be materially and adversely affected; the Company's business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation; the Company is exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances; the effects of emerging claim and coverage issues on the Company's business are uncertain; the Company may not be able to collect all amounts due to it from reinsurers, and reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all; the intense competition that the Company faces could harm its ability to maintain or increase its profitability and premium volume; the Company is exposed to credit risk in certain of its business operations and

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FORWARD-LOOKING STATEMENTS, Continued

in its investment portfolio; the insurance industry and the Company are the subject of a number of investigations by state and federal authorities in the United States, and the Company cannot predict the outcome of these investigations or their impact on its business or financial results; the Company's businesses are heavily regulated, and changes in regulation may reduce the Company's profitability and limit its growth; a downgrade in the Company's claims-paying and debt ratings could adversely impact its business volumes, adversely impact its ability to access the capital markets and increase its borrowing costs; the Company's investment portfolio may suffer reduced returns or losses; deteriorating economic conditions in the United States and abroad could adversely impact the ability of the Company to grow its business profitably and inflation could result in an increase in loss costs which could negatively impact our profitability; the inability of the Company's insurance subsidiaries to pay dividends to the holding company in sufficient amounts would harm the Company's ability to meet its obligations and to pay future shareholder dividends; disruptions to the Company's relationships with its independent agents and brokers could adversely affect the Company; the Company is subject to a number of risks associated with its business outside the United States including operational, legal and foreign exchange rate risk; the Company could be adversely affected if its controls to ensure compliance with guidelines, policies and legal and regulatory standards are not effective; the Company's business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology; certain significant multiyear technology projects are currently in process but may not be successful; and if the Company experiences difficulties with technology, data security and/or outsourcing relationships, its ability to conduct its business could be negatively impacted.

The Company's forward-looking statements speak only as of the date of this report or as of the date they are made, and the Company undertakes no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the caption "Risk Factors" in the Company's most recent annual report on Form 10-K filed with the Securities and Exchange Commission and under "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and in the Form 10-K.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's identified market risk components as described in its December 31, 2007 annual report on Form 10-K. However, during the quarter ended September 30, 2008, there were significant disruptions in the financial markets. A number of large financial institutions failed, were supported by the United States government or were merged into other organizations. The market disruption has resulted in a lack of liquidity in the credit markets and a widening of credit spreads. As a result of these effects, the Company had a net unrealized loss of \$1.41 billion in its fixed maturities portfolio at September 30, 2008, compared with a net unrealized gain of \$768 million at December 31, 2007.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and

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Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2008. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2008, the design and operation of the Company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to accomplish their objectives.

In addition, there was no change in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

This 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 the Company's property is 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 a discussion of other information regarding the Company's asbestos and environmental exposure, 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.

Travelers Property Casualty Corp. (TPC), a wholly-owned subsidiary of the Company, was involved in three significant proceedings relating to ACandS, Inc. (ACandS), formerly a national distributor and installer of products containing asbestos. The proceedings in the U.S. Bankruptcy Court for the District of Delaware (*In re: ACandS, Inc.*) and the U.S. District Court for the District of Pennsylvania (*ACandS, Inc. v. Travelers Casualty and Surety Co.*, No. 03-MC-222 and *ACandS, Inc. v. Travelers Casualty and Surety Co.*, 00-CV-4633), involved disputes as to whether and to what extent any of ACandS' potential liabilities for current or future bodily injury asbestos claims are covered by insurance policies issued by TPC. On July 6, 2007, the Company announced that it entered into a settlement to resolve fully all current and future asbestos-related coverage claims relating to ACandS. Pursuant to that agreement, the Company placed \$449 million into escrow. The settlement was subject to a number of contingencies, including final non-appealable approvals by the court of the settlement agreement, a plan of reorganization for ACandS and the issuance of injunctions in favor of the Company. The contingencies have been fulfilled. On August 6, 2008, the Company's \$449 million settlement payment was released from the escrow to the ACandS Trust. This transaction was recorded as a paid claim and reduction in claim reserves, and accordingly, there was no effect on the Company's results of operations. The Company is seeking to recover approximately \$84 million of the \$449 million from reinsurers; such a recovery would also have no effect on the Company's results of operations.

In October 2001 and April 2002, two purported class action suits (*Wise v. Travelers* and *Meninger v. Travelers*) were filed against TPC and other insurers (not including 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

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unfair trade practices 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 were filed in Massachusetts and Hawaii state courts (these suits and the West Virginia 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, are also pending in Texas state court against TPC and SPC, and in Louisiana state court against TPC (the claims asserted in these suits, together with the West Virginia suit, 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.

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LEGAL PROCEEDINGS, Continued

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. Each of these settlements is contingent upon, among other things, 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.

On August 17, 2004, the bankruptcy court entered an order approving the settlements and clarifying its prior orders that all of the pending Statutory and Hawaii Actions and substantially all Common Law Claims pending against TPC are barred. The 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 bankruptcy court's orders while vacating that portion of the bankruptcy court's orders 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 an order issued by the bankruptcy court prohibiting the prosecution of the Statutory and Hawaii Actions and the Common Law Claims, as well as future similar direct action litigation, against TPC. 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 on September 4, 2008 seeking review of the Second Circuit's decision. The Petitions remain pending. Unless the Supreme Court grants discretionary review and reverses the Second Circuit's decision, and the bankruptcy court's order is reinstated and becomes final, the settlements will be voided and TPC will have no obligation to pay the amounts due under the settlement agreements (other than certain administrative expenses). In that case, the Company intends to litigate the direct action cases vigorously.

SPC, which is not covered by the 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.

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

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 Transatlantic Reinsurance Company (Transatlantic), XL Reinsurance America, Inc. (XL), Odyssey America Reinsurance Corporation (Odyssey), Employers Reinsurance Company (Employers) and 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. The reinsurers asserted counterclaims seeking rescission of the vehicle residual value reinsurance contracts issued to Gulf and unspecified damages for breach of contract. Gerling commenced a separate action asserting the same claims, which has been consolidated with the original Gulf action for pre-trial purposes.

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LEGAL PROCEEDINGS, Continued

Gulf has entered into final settlement agreements with Employers, XL, Transatlantic and Odyssey which resolve all claims between Gulf and these defendants under the reinsurance agreements at issue in the litigation.

In November 2007, the court issued rulings denying Gulf's motion for partial summary judgment against Gerling, the sole remaining defendant, but granting Gerling's motion for partial summary judgment on certain claims and counterclaims asserted by Gulf and Gerling. Gulf has appealed the court's decision to the Supreme Court of New York Appellate Division, First Department, and has been granted a stay of trial on the remaining claims pending that appeal. Briefing of the appeal was completed on April 11, 2008 and oral argument was held on May 20, 2008. Gulf denies Gerling's allegations, believes that it has a strong legal basis to collect the amounts due under the reinsurance contracts and intends 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.

As previously disclosed, as part of ongoing, 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 include 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 certain of the Company's business practices. This review initially focused on the Company's relationship with brokers and was commenced after the announcement of litigation brought in October 2004 by the New York Attorney General's office against a major broker.

The internal review was expanded to address the various requests for information described above and to verify whether the Company's business practices in these areas have been appropriate. The Company's review was extensive, involving the examination of e-mails and underwriting files, as well as interviews of current and former employees.

In its review, the Company found only a few instances of conduct that were inconsistent with the Company's employee code of conduct and has responded appropriately. The Company's internal review with respect to finite reinsurance considered finite products the Company both purchased and sold. The Company completed its review with respect to the identified finite products purchased and sold, and concluded that no adjustment to previously issued financial statements is required.

Any authority with open inquiries or investigations could ask that additional work be performed or reach conclusions different from the Company's. Accordingly, it would be premature to reach any conclusions as to the likely outcome of the regulatory inquiries described above.

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

LEGAL PROCEEDINGS, Continued

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 are appealing the district court's decisions to the U.S. Court of Appeals for 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.

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 (the Division) 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 has cooperated with the Division's requests for information.

Item 1A. RISK FACTORS

For a discussion of the Company's potential risks or uncertainties, please see Part I, Item 1A, of the Company's 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There have been no material changes to the risk factors disclosed in Part I, Item 1A of the Company's 2007 Annual Report on Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs
July 1, 2008	July 31, 2008	2,632,937	\$ 43.85	2,622,546	\$ 4,066,841,873
August 1, 2008	August 31, 2008	2,106,642	43.74	2,103,178	3,974,848,041
Sept. 1, 2008	Sept. 30, 2008	1,496,243	44.22	1,471,805	3,909,854,639
Total		6,235,822	\$ 43.90	6,197,529	\$ 3,909,854,639

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

The Company repurchased 38,293 shares during the three-month period ended September 30, 2008 that were not part of the publicly announced share repurchase authorization, representing shares repurchased to cover payroll withholding taxes in connection with the vesting of restricted stock awards and exercises of stock options, and shares used to cover the exercise price of certain stock options that were exercised. The Company's share repurchase authorization, which has no expiration date, was first approved and announced by the Company's board of directors in May 2006. In January 2008, the board of directors authorized an additional \$5 billion for share repurchases.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The Travelers Companies, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE TRAVELERS COMPANIES, INC.
(Registrant)

Date: October 22, 2008

By /S/ **MATTHEW S. FURMAN**
Matthew S. Furman
Senior Vice President
(Authorized Signatory)

Date: October 22, 2008

By /S/ **DOUGLAS K. RUSSELL**
Douglas K. Russell
Senior Vice President, Corporate Controller and
Treasurer
(Principal Accounting Officer)

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of The Travelers Companies, Inc. (the Company), effective as of May 1, 2007, were filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2007, and are incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Company, effective as of August 6, 2008, were filed as Exhibit 3.2 to the Company's Form 8-K filed on August 11, 2008, and are incorporated herein by reference.
10.1	Amended and Restated Time Sharing Agreement, effective August 5, 2008, by and between The Travelers Companies, Inc. and Jay S. Fishman.
12.1	Statement regarding the computation of the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends.
31.1	Certification of Jay S. Fishman, Chairman and Chief Executive Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jay S. Fishman, Chairman and Chief Executive Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.

Copies of any of the exhibits referred to above will be furnished to security holders who make written request therefor to The Travelers Companies, Inc., 385 Washington Street, Saint Paul, MN 55102, Attention: Corporate Secretary.

The total amount of securities authorized pursuant to any instrument defining rights of holders of long-term debt of the Company does not exceed 10% of the total assets of the Company and its consolidated subsidiaries. Therefore, the Company is not filing any instruments evidencing long-term debt. However, the Company will furnish copies of any such instrument to the Securities and Exchange Commission upon request.

Filed herewith.

