NEWMONT MINING CORP /DE/
Form DEFA14A
April 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o	Definitive Proxy Statement
x	Definitive Additional Materials
o	Soliciting Material under §240.14a-12

Newmont Mining Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies:
	(2)	Aggregate number of securities to which transaction applies:
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
	(4)	Proposed maximum aggregate value of transaction:
	(5)	Total fee paid:
o	Fee paid previously with preliminary materials.	
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.	

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

The following letter was mailed to stockholders of Newmont Mining Corporation on April 1, 2019:

April 1, 2019

Dear Newmont Stockholder:

We had previously sent you proxy materials related to the Newmont Mining Corporation special meeting being held on April 11, 2019 for stockholders to consider a strategic business combination transaction with Goldcorp Inc. At the special meeting you will be asked to vote upon, among other matters, an amendment and restatement of the Newmont Restated Certificate of Incorporation to increase Newmont s authorized shares of common stock from 750,000,000 to 1,280,000,000 and the issuance of shares of Newmont common stock to Goldcorp shareholders. To ensure that your shares are counted in this important matter, **please take a moment right now and return the enclosed proxy card.**

Your Board of Directors unanimously recommends that you vote FOR all of the proposals presented at the special meeting

In order to make it convenient for you to vote, we are enclosing a duplicate proxy card for your use. We have also made arrangements for you to be able to vote by telephone or internet. Simply follow the instructions on the enclosed proxycard.

Please vote today! Remember - every share and every vote counts!

If you have any questions, or need assistance voting, please call our proxy solicitor, MacKenzie Partners, Inc., toll-free at (800) 322-2885.

Thank you for your continued support.

Sincerely,

NOREEN DOYLE

Chair of the Board of Directors

Additional information about the proposed transaction and where to find it

This communication is not intended to and does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. This communication is being made in respect of the proposed transaction involving the Company and Goldcorp pursuant to the terms of an Arrangement Agreement by and among the Company and Goldcorp and may be deemed to be soliciting material relating to the proposed transaction. In connection with the proposed transaction, the Company filed a proxy statement relating to a special meeting of its stockholders with the SEC on March 11, 2019. Additionally, the Company filed and will file other relevant materials in connection with the proposed transaction with the SEC. Security holders of the Company are urged to read the proxy statement regarding the proposed transaction and any other relevant materials carefully in their entirety when they become available before making any voting or investment decision with respect to the proposed transaction because they contain and will contain important information about the proposed transaction and the parties to the transaction. The definitive proxy statement was mailed to the Company s stockholders on March 14, 2019. Stockholders of the Company are able to obtain a copy of the proxy statement, the filings with the SEC that have been and will be incorporated by reference into the proxy statement as well as other filings containing information about the proposed transaction and the parties to the transaction made by the Company with the SEC free of charge at the SEC s website at www.sec.gov, on the Company s website at www.newmont.com/investor-relations/default.aspx or by contacting the Company s Investor Relations department at jessica.largent@newmont.com or by calling 303-837-5484. Copies of the documents filed with the SEC by Goldcorp are available free of charge at the SEC s website at www.sec.gov.

Participants in the proposed transaction solicitation

The Company and its directors, its executive officers, members of its management, its employees and other persons, under SEC rules, may be deemed to be participants in the solicitation of proxies of the Company s stockholders in connection with the proposed transaction. Investors and security holders may obtain more detailed information regarding the names, affiliations and interests of certain of the Company s executive officers and directors in the solicitation by reading the Company s 2018 Annual Report on Form 10-K filed with the SEC on February 21, 2019, its proxy statement relating to its 2018 Annual Meeting of Stockholders filed with the SEC on March 9, 2018 and other relevant materials filed with the SEC when they become available. Additional information regarding the interests of such potential participants in the solicitation of proxies in connection with the proposed transaction are set forth in the proxy statement relating to the transaction filed with the SEC on March 11, 2019, and mailed to stockholders March 14, 2019. Additional information concerning Goldcorp executive officers and directors is set forth in its 2018 Annual Report on Form 40-F filed with the SEC on March 28, 2019, its management information circular relating to its 2018 Annual Meeting of Stockholders filed with the SEC on March 16, 2018 and other relevant materials filed with the SEC when they become available.

If you have questions or need assistance in voting your shares, please contact:

1407 Broadway, 27th Floor

New York, New York 10018

(212) 929-5500 or

Call Toll-Free (800) 322-2885

Email: proxy@mackenziepartners.com

=2> *Assessments for Guaranty Funds and Second-Injury Funds and Other Mandatory Pooling and Reinsurance Arrangements.* Virtually all states require insurers licensed to do business in their state, including TRV's insurance subsidiaries, to bear a portion of the loss suffered by some claimants because of the insolvency of other insurers. Many states also have laws that established second-injury funds to provide compensation to injured employees for aggravation of a prior condition or injury.

TRV's insurance subsidiaries are also required to participate in various involuntary assigned risk pools, principally involving workers' compensation, automobile insurance, property windpools in states prone to property damage from hurricanes, and FAIR plans, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase that coverage in the voluntary market.

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

Table of Contents

Insurance Regulatory Information System. The National Association of Insurance Commissioners (NAIC) developed the Insurance Regulatory Information System (IRIS) to help state regulators identify companies that may require special attention. Financial examiners review annual statements and key financial ratios based on year-end data. These ratios assist state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. Each ratio has an established "usual range" of results. A ratio result falling outside the usual range of IRIS ratios, however, is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company will become subject to regulatory scrutiny if it falls outside the usual ranges of four or more of the ratios.

Based on preliminary 2008 IRIS ratios calculated by the Company, The Travelers Indemnity Company and The Standard Fire Insurance Company had results outside the normal range on one IRIS ratio, due to the amount of dividends received from their respective subsidiaries. Travelers Casualty and Surety Company of America had results outside the normal range for one IRIS ratio due to reduced dividends paid to its parent company in 2008. First Trenton Indemnity Company had results outside the normal range for two IRIS ratios due to increased dividends paid to its parent company in 2008. Travelers Auto Insurance Co. of New Jersey had results outside the normal range for one IRIS ratio due to the receipt of a capital contribution from its parent company. Several additional companies had results outside the normal range for one IRIS ratio due to increased direct written premiums in these companies. In 2007, St. Paul Mercury Insurance Company had results outside the normal range on four of the IRIS ratios, and St. Paul Guardian Insurance Company had results outside the normal range on three of the IRIS ratios. These results were due to these companies becoming Travelers Reinsurance Pool participants in 2007. Previously, these companies had been 100% reinsured by The Travelers Indemnity Company, one of the Travelers Reinsurance Pool participants. In conjunction with their new participation, St. Paul Mercury Insurance Company and St. Paul Guardian Insurance Company received capital contributions of $30 million and $10 million, respectively, from their parent company, St. Paul Fire and Marine Insurance Company, in 2007.

Management does not anticipate regulatory action as a result of the 2008 IRIS ratio results. In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required. It is possible that similar results could occur in the future.

Risk-Based Capital (RBC) Requirements. The NAIC has an RBC requirement for most property and casualty insurance companies. The RBC requirement determines minimum capital requirements and is intended to raise the level of protection for policyholder obligations. Under laws adopted by individual states, insurers having total adjusted capital less than that required by the RBC calculation will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The formulas have not been designed to differentiate among adequately capitalized companies that operate with higher levels of capital. Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank these companies. At December 31, 2008, all of TRV's insurance subsidiaries had total adjusted capital in excess of the RBC requirement.

Investment Regulation. Insurance company investments must comply with applicable laws and regulations which prescribe the kind, quality and concentration of investments. In general, these laws and regulations permit investments in federal, state and municipal obligations, corporate bonds, preferred and common equity securities, mortgage loans, real estate and certain other investments, subject to specified limits and certain other qualifications. At December 31, 2008, the Company was in compliance with these laws and regulations.

Agent and Broker Compensation. As part of industry-wide investigations, the Company received subpoenas and written requests for information from a number of regulators. The areas of pending inquiry addressed to the Company include the method by which brokers and agents are compensated.

Table of Contents

The Company cooperated with these subpoenas and requests for information. The Company has also entered into agreements with several of these regulators to resolve issues related to broker and agent compensation. As a result of these agreements, the Company has discontinued paying contingent commissions in the United States on a number of insurance businesses, including excess casualty and umbrella, personal insurance, boiler and machinery, financial guaranty, fidelity and burglary & theft. The Company has developed alternative compensation arrangements for these lines of business that compensate brokers and agents in a manner that differentiates for business performance and is consistent with all applicable laws. Beginning January 1, 2007, the Company offered an optional fixed commission program in the U.S. for most commercial insurance lines.

International Regulation

TRV's insurance underwriting subsidiaries based in the United Kingdom, Travelers Insurance Company Limited and Travelers Casualty and Surety Company of Europe Limited, are regulated by the Financial Services Authority (FSA). The FSA's principal objectives are to maintain market confidence, promote public understanding of the financial system, protect consumers, and fight financial crime. TRV's managing agent (Travelers Syndicate Management Ltd.) of its Lloyd's syndicate is also regulated by the FSA, which has delegated certain regulatory responsibilities to the Council of Lloyd's.

Through Lloyd's, TRV is licensed to write business in over 70 countries throughout the world by virtue of Lloyd's international licenses. In each such country, TRV is subject to the laws and insurance regulation of that country. In 2007, a TRV subsidiary, Travelers Casualty and Surety Company, established a representative office in China. The representative office is regulated by the China Insurance Regulatory Commission. In addition, in 2007, TRV's Lloyd's managing operations agency established a service company in Singapore, the underwriting operations of which are regulated by the Monetary Authority of Singapore.

TRV's insurance operations in the Republic of Ireland are regulated by the Irish Financial Services Regulatory Authority. In Canada, the conduct of TRV's insurance business is regulated by the Office of the Superintendent of Financial Institutions under provisions of the Insurance Companies Act, which requires insurance companies to maintain certain levels of capital depending on the type and amount of insurance policies in force.

TRV's branch in runoff in Australia is regulated by the Australian Prudential Regulation Authority.

Insurance Holding Company Statutes

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

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

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

Table of Contents

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

One of TRV's insurance subsidiaries and its operations at Lloyd's are domiciled in the United Kingdom. Insurers in the United Kingdom are subject to change of control restrictions in the Financial Services and Markets Act of 2000 including approval of the Financial Services Authority. Some of TRV's other insurance subsidiaries are domiciled in, or authorized to conduct insurance business in, Canada. Authorized insurers in Canada are subject to change of control restrictions in Section 407 of the Insurance Companies Act, including approval of the Office of the Superintendent of Financial Institutions.

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

ENTERPRISE RISK MANAGEMENT

As a large property casualty insurance enterprise, the Company is exposed to many risks. These risks are a function of the environments within which the Company operates. Since certain risks can be correlated with other risks, an event or a series of events can impact multiple areas of the Company simultaneously and have a material effect on the Company's results of operations, financial position or liquidity. These exposures require an entity-wide view of risk and an understanding of the potential impact on all aspects of the Company. It also requires the Company to manage its risk-taking to be within its risk appetite in a prudent effort to create and preserve value for all of the Company's constituents. This approach to Company-wide risk evaluation and management is commonly called Enterprise Risk Management (ERM). ERM activities involve both the identification and assessment of a broad range of risks and the development of plans to effectively manage such risks.

ERM at the Company has been operational for many years and incorporates risk-based analytics, reporting and feedback among the various disciplines throughout the Company, including, but not limited to, the underwriting, claim, reinsurance, investment, legal, regulatory, actuarial, finance and technology functions. Board oversight of ERM is provided by the Risk Committee. In addition to the day-to-day risk management activities within the Company's business units, other key internal risk management functions include the Management Committee (comprised of the Company's Chief Executive Officer and the other most senior members of management), the Risk Committee of management, the Credit Committee, the Chief Compliance Officer, the Business Conduct Officer, the Corporate Actuarial group, the Internal Audit group, the Accounting Policy group, the Enterprise Underwriting group and many others.

A senior executive oversees the ERM process. The mission of this executive is to facilitate risk assessment and to collaborate in implementing risk management strategies. Another strategic ERM objective includes working across the Company to enhance effective and realistic risk modeling capabilities as part of the Company's overall effort to understand and manage its portfolio of risks to be within its risk appetite.

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

OTHER INFORMATION

Customer Concentration

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

Employees

At December 31, 2008, the Company had approximately 33,000 employees. The Company believes that its employee relations are satisfactory. None of the Company's employees are subject to collective bargaining agreements.

Sources of Liquidity

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

Taxation

For a discussion of tax matters affecting the Company and its operations, see note 11 of notes to the Company's consolidated financial statements.

Financial Information about Reportable Business Segments

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

Recent Transactions

For information regarding recent transactions of the Company, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

Company Website and Availability of SEC Filings

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

From time to time, the Company may use its website as a channel of distribution of material company information. Financial and other material information regarding the Company is routinely posted on and accessible at http://investor.travelers.com. In addition, you may automatically receive e-mail alerts and other information about the Company by enrolling your e-mail address by visiting the "E-mail Alert Service" section at *http://investor.travelers.com.*

Table of Contents

Glossary of Selected Insurance Terms

Accident year	The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.
Adjusted unassigned surplus	Unassigned surplus as of the most recent statutory annual report reduced by twenty-five percent of that year's unrealized appreciation in value or revaluation of assets or unrealized profits on investments, as defined in that report.
Admitted insurer	A company licensed to transact insurance business within a state.
Annuity	A contract that pays a periodic benefit over the remaining life of a person (the annuitant), the lives of two or more persons or for a specified period of time.
Assigned risk pools	Reinsurance pools which cover risks for those unable to purchase insurance in the voluntary market. Possible reasons for this inability include the risk being too great or the profit being too small under the required insurance rate structure. The costs of the risks associated with these pools are charged back to insurance carriers in proportion to their direct writings.
Assumed reinsurance	Insurance risks acquired from a ceding company.
Average value analysis	An actuarial method used to estimate ultimate losses for a given cohort of claims such as an accident year/product line component. If the paid-to-date losses are then subtracted from the estimated ultimate losses, the result is an indication of the unpaid losses.
	The basic premise of the method is that average claim values are stable and predictable over time for a particular cohort of claims. The method is utilized most often where ultimate claim counts are known or reliably estimable fairly early after the start of an accident year and average values are expected to be fairly predictable from one year to the next.
	Ultimate losses under the method equal the known or estimated ultimate claim counts times the estimated average value. Estimated ultimate claim counts are frequently based on a claim count development method, essentially the same as the paid and case incurred development methods mentioned elsewhere in this glossary but using claim count rather than claim dollar data. The average values can be based on historical trends from past closed claims, or backed into from estimated ultimate losses divided by estimated ultimate claim counts, or some other approach. When the average values are calculated from ultimate loss estimates, the resulting estimated averages may be supplemented with other data/analyses.
Bornhuetter-Ferguson method	An actuarial method to estimate ultimate losses for a given cohort of claims such as an accident year/product line component. If the paid-to-date losses are then subtracted from the estimated ultimate losses, the result is an indication of the outstanding losses.

Table of Contents

	The basic premise of the method is that the historical ratio of additional claim activity to earned premium for a given product line component/age-to-age period is stable and predictable. It implicitly assumes that the actual activity to date for past periods for that cohort is not a credible predictor of future activity for that cohort, or at least is not credible enough to override the "a priori" assumption as to future activity. It may be applied to either paid or case incurred claim data. It is used most often where the claim data is sparse and/or volatile and for relatively young cohorts with low volumes and/or data credibility.
	To illustrate, the method may assume that the ratio of additional paid losses from the 12 to 24 month period for an accident year is 10% of the original "a priori" expected losses for that accident year. The original "a priori" expected losses are typically based on the original loss ratio assumption for that accident year, with subsequent adjustment as facts develop.
	The ultimate losses equal actual activity to date plus the expected values for future periods.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered.
Capacity	The percentage of surplus, or the dollar amount of exposure, that an insurer or reinsurer is willing or able to place at risk. Capacity may apply to a single risk, a program, a line of business or an entire book of business. Capacity may be constrained by legal restrictions, corporate restrictions or indirect restrictions.
Captive	A closely-held insurance company whose primary purpose is to provide insurance coverage to the company's owners or their affiliates.
Case-incurred development method	An actuarial method to estimate ultimate losses for a given cohort of claims such as an accident year/product line component. If the paid-to-date losses are then subtracted from the estimated ultimate losses, the result is an indication of the unpaid losses.
	The approach is the same as that described in this glossary under the "paid loss development method," but based on the growth in cumulative case-incurred losses (i.e., the sum of claim-adjustor incurred estimates for claims in the cohort) rather than paid losses. The basic premise of the method is that cumulative case incurred losses for a given cohort of claims will grow in a stable, predictable pattern from year-to-year, based on the age of the cohort.
Case reserves	Claim department estimates of anticipated future payments to be made on each specific individual reported claim.

Table of Contents

Casualty insurance	Insurance which is primarily concerned with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured resulting therefrom. It includes, but is not limited to, employers' liability, workers' compensation, public liability, automobile liability, personal liability and aviation liability insurance. It excludes certain types of losses that by law or custom are considered as being exclusively within the scope of other types of insurance, such as fire or marine.
Catastrophe	A severe loss, resulting from natural and man-made events, including risks such as fire, earthquake, windstorm, explosion, terrorism and other similar events. Each catastrophe has unique characteristics. Catastrophes are not predictable as to timing or amount in advance, and therefore, their effects are not included in earnings or claims and claim adjustment expense reserves prior to occurrence. A catastrophe may also result in the payment of reinstatement premiums and assessments from various pools.
Catastrophe loss	Loss and directly identified loss adjustment expenses from catastrophes.
Catastrophe reinsurance	A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the ceding company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event. The actual reinsurance document is called a "catastrophe cover." These reinsurance contracts are typically designed to cover property insurance losses but can be written to cover casualty insurance losses such as from workers' compensation policies.
Cede; ceding company	When an insurer reinsures its liability with another insurer or a "cession," it "cedes" business and is referred to as the "ceding company."
Ceded reinsurance	Insurance risks transferred to another company as reinsurance. See "Reinsurance."
Claim	Request by an insured for indemnification by an insurance company for loss incurred from an insured peril.
Claim adjustment expenses	See "Loss adjustment expenses (LAE)."
Claims and claim adjustment expenses	See "Loss" and "Loss adjustment expenses (LAE)."
Claims and claim adjustment expense reserves	See "Loss reserves."
Cohort	A group of items or individuals that share a particular statistical or demographic characteristic. For example, all claims for a given product in a given market for a given accident year would represent a cohort of claims.

Table of Contents

Combined ratio	The sum of the loss and LAE ratio, the underwriting expense ratio and, where applicable, the ratio of dividends to policyholders to net premiums earned. A combined ratio under 100% generally indicates an underwriting profit. A combined ratio over 100% generally indicates an underwriting loss.
Commercial multi-peril policies	Refers to policies which cover both property and third-party liability exposures.
Commutation agreement	An agreement between a reinsurer and a ceding company whereby the reinsurer pays an agreed-upon amount in exchange for a complete discharge of all obligations, including future obligations, between the parties for reinsurance losses incurred.
Deductible	The amount of loss that an insured retains.
Deferred acquisition costs	Primarily commissions and premium-related taxes that vary with, and are primarily related to, the production of new contracts and are deferred and amortized to achieve a matching of revenues and expenses when reported in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP).
Deficiency	With regard to reserves for a given liability, a deficiency exists when it is estimated or determined that the reserves are insufficient to pay the ultimate settlement value of the related liabilities. Where the deficiency is the result of an estimate, the estimated amount of deficiency (or even the finding of whether or not a deficiency exists) may change as new information becomes available.
Demand surge	Significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services, commonly as a result of a large catastrophe resulting in significant widespread property damage.
Direct written premiums	The amounts charged by an insurer to insureds in exchange for coverages provided in accordance with the terms of an insurance contract. The amounts exclude the impact of all reinsurance premiums, either assumed or ceded.
Earned premiums or premiums earned	That portion of property casualty premiums written that applies to the expired portion of the policy term. Earned premiums are recognized as revenues under both Statutory Accounting Practices (SAP) and GAAP.
Excess liability	Additional casualty coverage above a layer of insurance exposures.
Excess of loss reinsurance	Reinsurance that indemnifies the reinsured against all or a specified portion of losses over a specified dollar amount or "retention."
Expense ratio	See "Underwriting expense ratio."
Facultative reinsurance	The reinsurance of all or a portion of the insurance provided by a single policy. Each policy reinsured is separately negotiated.

Table of Contents

Fair Access to Insurance Requirements (FAIR) Plan	A residual market mechanism which provides property insurance to those unable to obtain such insurance through the regular (voluntary) market. FAIR plans are set up on a state-by-state basis to cover only those risks in that state. For more information, see "residual market (involuntary business)."
Fidelity and surety programs	Fidelity insurance coverage protects an insured for loss due to embezzlement or misappropriation of funds by an employee. Surety is a three-party agreement in which the insurer agrees to pay a second party or make complete an obligation in response to the default, acts or omissions of an insured.
Ground-up analysis	A method to estimate ultimate claim costs for a given cohort of claims such as an accident year/product line component. It involves analyzing the exposure at an individual insured level and then through the use of deterministic or stochastic scenarios and/or simulations, estimating the ultimate losses for those insureds. The total losses for the cohort are then the sum of the losses for each individual insured.
	In practice, the method is sometimes simplified by performing the individual insured analysis only for the larger insureds, with the costs for the smaller insureds estimated via sampling approaches (extrapolated to the rest of the smaller insured population) or aggregate approaches (using assumptions consistent with the ground-up larger insured analysis).
Guaranteed cost products	An insurance policy where the premiums charged will not be adjusted for actual loss experience during the covered period.
Guaranty fund	A state-regulated mechanism that is financed by assessing insurers doing business in those states. Should insolvencies occur, these funds are available to meet some or all of the insolvent insurer's obligations to policyholders.
Incurred but not reported (IBNR) reserves	Reserves for estimated losses and LAE that have been incurred but not yet reported to the insurer. This includes amounts for unreported claims, development on known cases, and re-opened claims.
Inland marine	A broad type of insurance generally covering articles that may be transported from one place to another, as well as bridges, tunnels and other instrumentalities of transportation. It includes goods in transit, generally other than transoceanic, and may include policies for movable objects such as personal effects, personal property, jewelry, furs, fine art and others.
IRIS ratios	Financial ratios calculated by the NAIC to assist state insurance departments in monitoring the financial condition of insurance companies.

Table of Contents

Large deductible policy	An insurance policy where the customer assumes at least $25,000 or more of each loss. Typically, the insurer is responsible for paying the entire loss under those policies and then seeks reimbursement from the insured for the deductible amount.
Lloyd's	An insurance marketplace based in London, England, where brokers, representing clients with insurable risks, deal with Lloyd's underwriters, who represent investors. The investors are grouped together into syndicates that provide capital to insure the risks.
Loss	An occurrence that is the basis for submission and/or payment of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the policy.
Loss adjustment expenses (LAE)	The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.
Loss and LAE ratio	For SAP, it is the ratio of incurred losses and loss adjustment expenses to net earned premiums. For GAAP, it is the ratio of incurred losses and loss adjustment expenses reduced by an allocation of fee income to net earned premiums.
Loss reserves	Liabilities established by insurers and reinsurers to reflect the estimated cost of claims incurred that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance it has written. Reserves are established for losses and for LAE, and consist of case reserves and IBNR reserves. As the term is used in this document, "loss reserves" is meant to include reserves for both losses and LAE.
Loss reserve development	The increase or decrease in incurred claims and claim adjustment expenses as a result of the re-estimation of claims and claim adjustment expense reserves at successive valuation dates for a given group of claims. Loss reserve development may be related to prior year or current year development.
Losses incurred	The total losses sustained by an insurance company under a policy or policies, whether paid or unpaid. Incurred losses include a provision for IBNR.
National Association of Insurance Commissioners (NAIC)	An organization of the insurance commissioners or directors of all 50 states, the District of Columbia and the five U.S. territories organized to promote consistency of regulatory practice and statutory accounting standards throughout the United States.
Net written premiums	Direct written premiums plus assumed reinsurance premiums less premiums ceded to reinsurers.
Operating income (loss)	Net income (loss) excluding the after-tax impact of net realized investment gains (losses), discontinued operations and cumulative effect of changes in accounting principles when applicable.

Table of Contents

Operating income (loss) per share	Operating income (loss) on a per share basis.
Operating return on equity	The ratio of operating income to average equity excluding net unrealized investment gains and losses and discontinued operations, net of tax.
Paid development method	An actuarial method to estimate ultimate losses for a given cohort of claims such as an accident year/product line component. If the paid-to-date losses are then subtracted from the estimated ultimate losses, the result is an indication of the unpaid losses.
	The basic premise of the method is that cumulative paid losses for a given cohort of claims will grow in a stable, predictable pattern from year-to-year, based on the age of the cohort. These age-to-age growth factors are sometimes called "link ratios."
	For example, if cumulative paid losses for a product line XYZ for accident year 2004 were $100 as of December 31, 2004 (12 months after the start of that accident year), then grew to $120 as of December 31, 2005 (24 months after the start), the link ratio for that accident year from 12 to 24 months would be 1.20. If the link ratio for other recent accident years from 12 to 24 months for that product line were also at or around 1.20, then the method would assume a similar result for the most recent accident year, i.e., that it too would have its cumulative paid losses grow 120% from the 12 month to 24 month valuation.
	This is repeated for each age-to-age period into the future until the age-to-age link ratios for future periods are assumed to be 1.0 (i.e., the age at which cumulative losses are assumed to have stopped growing).
	A given accident year's cumulative losses are then projected to ultimate by multiplying current cumulative losses by successive age-to-age link ratios up to that future age where growth is expected to end. For example, if growth is expected to end at 60 months, then the ultimate indication for an accident year with cumulative losses at 12 months equals those losses times a 12 to 24 month link ratio, times a 24 to 36 month link ratio, times a 36 to 48 month link ratio, times a 48 to 60 month link ratio.
	Advanced applications of the method include adjustments for changing conditions during the historical period and anticipated changes in the future.
Pool	An organization of insurers or reinsurers through which particular types of risks are underwritten with premiums, losses and expenses being shared in agreed-upon percentages.
Premiums	The amount charged during the year on policies and contracts issued, renewed or reinsured by an insurance company.

Table of Contents

Property insurance	Insurance that provides coverage to a person or business with an insurable interest in tangible property for that person's or business's property loss, damage or loss of use.
Quota share reinsurance	Reinsurance wherein the insurer cedes an agreed-upon fixed percentage of liabilities, premiums and losses for each policy covered on a pro rata basis.
Rates	Amounts charged per unit of insurance.
Redundancy	With regard to reserves for a given liability, a redundancy exists when it is estimated or determined that the reserves are greater than what will be needed to pay the ultimate settlement value of the related liabilities. Where the redundancy is the result of an estimate, the estimated amount of redundancy (or even the finding of whether or not a redundancy exists) may change as new information becomes available.
Reinstatement premiums	Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess-of-loss reinsurance treaties.
Reinsurance	The practice whereby one insurer, called the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.
Reinsurance agreement	A contract specifying the terms of a reinsurance transaction.
Reported claim development method	An actuarial method to estimate ultimate claim counts for a given cohort of claims such as an accident year/product line component. If the reported-to-date counts are then subtracted from the estimated ultimate counts, the result is an indication of the IBNR counts.
	The approach is the same as that described in this glossary under the "paid loss development method", but based on the growth in cumulative claim counts rather than paid losses. The basic premise of the method is that cumulative claim counts for a given cohort of claims will grow in a stable, predictable pattern from year-to-year, based on the age of the cohort.

Table of Contents

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

Table of Contents

Second-injury fund	The employer of an injured, impaired worker is responsible only for the workers' compensation benefit for the most recent injury; the second-injury fund would cover the cost of any additional benefits for aggravation of a prior condition. The cost is shared by the insurance industry and self-insureds, funded through assessments to insurance companies and self-insureds based on either premiums or losses.
Self-insured retentions	That portion of the risk retained by a person for its own account.
Servicing carrier	An insurance company that provides, for a fee, various services including policy issuance, claims adjusting and customer service for insureds in a reinsurance pool.
Statutory accounting practices (SAP)	The practices and procedures prescribed or permitted by domiciliary state insurance regulatory authorities in the United States for recording transactions and preparing financial statements. Statutory accounting practices generally reflect a modified going concern basis of accounting.
Statutory surplus	As determined under SAP, the amount remaining after all liabilities, including loss reserves, are subtracted from all admitted assets. Admitted assets are assets of an insurer prescribed or permitted by a state to be recognized on the statutory balance sheet. Statutory surplus is also referred to as "surplus" or "surplus as regards policyholders" for statutory accounting purposes.
Structured settlements	Periodic payments to an injured person or survivor for a determined number of years or for life, typically in settlement of a claim under a liability policy, usually funded through the purchase of an annuity.
Subrogation	A principle of law incorporated in insurance policies, which enables an insurance company, after paying a claim under a policy, to recover the amount of the loss from another person or entity who is legally liable for it.
Third-party liability	A liability owed to a claimant (third party) who is not one of the two parties to the insurance contract. Insured liability claims are referred to as third-party claims.
Treaty reinsurance	The reinsurance of a specified type or category of risks defined in a reinsurance agreement (a "treaty") between a primary insurer or other reinsured and a reinsurer. Typically, in treaty reinsurance, the primary insurer or reinsured is obligated to offer and the reinsurer is obligated to accept a specified portion of all that type or category of risks originally written by the primary insurer or reinsured.
Umbrella coverage	A form of insurance protection against losses in excess of amounts covered by other liability insurance policies or amounts not covered by the usual liability policies.
Unassigned surplus	The undistributed and unappropriated amount of statutory surplus.

Table of Contents

Underwriter	An employee of an insurance company who examines, accepts or rejects risks and classifies accepted risks in order to charge an appropriate premium for each accepted risk. The underwriter is expected to select business that will produce an average risk of loss no greater than that anticipated for the class of business.
Underwriting	The insurer's or reinsurer's process of reviewing applications for insurance coverage, and the decision as to whether to accept all or part of the coverage and determination of the applicable premiums; also refers to the acceptance of that coverage.
Underwriting expense ratio	For SAP, it is the ratio of underwriting expenses incurred less other income to net written premiums. For GAAP, it is the ratio of underwriting expenses incurred reduced by an allocation of fee income and billing and policy fees to net earned premiums.
Underwriting gain or loss	Net earned premiums and fee income less claims and claim adjustment expenses and insurance-related expenses.
Unearned premium	The portion of premiums written that is allocable to the unexpired portion of the policy term.
Voluntary market	The market in which a person seeking insurance obtains coverage without the assistance of residual market mechanisms.
Wholesale broker	An independent or exclusive agent that represents both admitted and nonadmitted insurers in market areas, which include standard, non-standard, specialty and excess and surplus lines of insurance. The wholesaler does not deal directly with the insurance consumer. The wholesaler deals with the retail agent or broker.
Workers' compensation	A system (established under state and federal laws) under which employers provide insurance for benefit payments to their employees for work-related injuries, deaths and diseases, regardless of fault.

Table of Contents

Item 1A. RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto.

Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance. Our property and casualty insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various natural events, including, among others, hurricanes, windstorms, earthquakes, hail, severe winter weather, wildfires and volcanic eruptions. Catastrophes can also be man-made, such as a terrorist attack (including those involving nuclear, biological, chemical or radiological events) or a consequence of war or political instability. The geographic distribution of our business subjects us to catastrophe exposures, which include, but are not limited to: hurricanes from Maine through Texas; tornadoes throughout the central United States and Southeast; earthquakes in California, the New Madrid region and the Pacific Northwest region of the United States and Canada; and wildfires, particularly in the Southwest.

The incidence and severity of catastrophes are inherently unpredictable. Some scientists believe that in recent years, changing climate conditions have added to the unpredictability and frequency of natural disasters (including, but not limited to, hurricanes, tornadoes, other storms and fires) in certain parts of the world and created additional uncertainty as to future trends and exposures. For example, in recent years hurricane activity has impacted areas further inland than previously experienced, thus expanding our overall hurricane exposure. It is possible that both the frequency and severity of natural and man-made catastrophic events could increase. The catastrophe modeling tools that we use to help manage certain of our catastrophe exposures are based on assumptions and judgments that are subject to error and mis-estimation and may produce estimates that are materially different than actual results. Our expansion into new geographical areas as well as changing climate conditions could cause our catastrophe models to be even less predictive, thus limiting our ability to effectively manage such exposures. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Catastrophe Modeling."

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. States have from time to time passed legislation, and regulators have taken action, that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from reducing exposures or withdrawing from catastrophe-prone areas or mandating that insurers participate in residual markets. Participation in residual market mechanisms has resulted in, and may continue to result in, significant losses or assessments to insurers, including us, and, in certain states, those losses or assessments may not be commensurate with our catastrophe exposure in those states. If our competitors leave those states having residual market mechanisms, remaining insurers, including us, may be subject to significant increases in losses or assessments following a catastrophe. In addition, following catastrophes, there are sometimes legislative initiatives and court decisions which seek to expand insurance coverage for catastrophe claims beyond the original intent of the policies. Also, our ability to increase pricing to the extent necessary to offset rising costs of catastrophes, particularly in the Personal Insurance segment, requires approval of regulatory authorities of certain states. Our ability or our willingness to manage our catastrophe exposure by raising prices, modifying underwriting terms or reducing exposure to certain geographies may be limited due to considerations of public policy, the evolving political environment, changes in the general economic climate and/or social responsibilities. We also may choose to write business in catastrophe-prone areas that we might not otherwise write for strategic purposes, such as improving our access to other underwriting opportunities.

There are also risks that impact the estimation of ultimate costs for catastrophes. For example, the estimation of reserves related to hurricanes can be affected by the inability to access portions of the

Table of Contents

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; the impact of demand surge; infrastructure disruption; fraud; the effect of mold damage; business interruption costs; and reinsurance collectibility. The timing of a catastrophe's occurrence, such as at or near the end of a reporting period, can also affect the information available to us in estimating reserves for that reporting period. The estimates related to catastrophes are adjusted as actual claims emerge and additional information becomes available.

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

In addition to catastrophe losses, the accumulation of losses from smaller weather-related events in any fiscal quarter or year could materially and adversely impact our results of operations in those periods.

Given the unpredictable frequency and severity of terrorism losses, as well as the limited terrorism coverage in our own reinsurance program, future losses from acts of terrorism, particularly those involving nuclear, biological, chemical or radiological events, could materially and adversely affect our results of operations, financial position and/or liquidity. Although the Terrorism Risk Insurance Program Reauthorization Act of 2007 provides benefits in the event of certain acts of terrorism, those benefits are subject to a deductible and other limitations. Under this law, once our losses exceed 20% of our commercial property and casualty insurance premium for the preceding calendar year, the federal government will reimburse us for 85% of our losses attributable to certain acts of terrorism which exceed this deductible up to a total industry program cap of $100 billion. In addition, because this law is relatively new and its interpretation is untested, there may be uncertainty as to how it will be applied to specific circumstances.

Because of the risks set forth above, catastrophes such as those caused by various natural events, or man-made events such as a terrorist attack (including those involving nuclear, biological, chemical or radiological events), could materially and adversely affect our results of operations, financial position and/or liquidity.

Financial disruption or a prolonged economic downturn may materially and adversely affect our business. Worldwide financial markets have recently experienced significant disruption, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Moreover, many companies are experiencing reduced liquidity and uncertainty as to their ability to raise capital. In the event that these conditions persist or result in a prolonged economic downturn, our results of operations, financial position and/or liquidity could be materially and adversely affected. In addition, as a result of recent financial events, we may face increased regulation. Many of the risk factors that follow identify risks that result from, or are exacerbated by, financial disruption or a prolonged

Table of Contents

economic downturn. These include risks discussed below related to our investment portfolio, reinsurance arrangements, other credit exposures, emerging claim and coverage issues, the competitive environment, regulatory developments and the impact of rating agency actions. You should also refer to "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation", particularly the "Outlook" section.

Our investment portfolio may suffer reduced returns or material losses. Investment returns are an important part of our overall profitability.

Fixed maturity and short-term investments comprised approximately 94% of the carrying value of our investment portfolio as of December 31, 2008. Changes in interest rates (inclusive of credit spreads) affect the carrying value of our fixed maturity investments and returns on our fixed maturity and short-term investments. A decline in interest rates reduces the returns available on new investments, thereby negatively impacting our net investment income. Conversely, rising interest rates reduces the market value of existing fixed maturity investments.

We invest a portion of our assets in equity securities, private equity limited partnerships, hedge funds, real estate partnerships, joint ventures, venture capital investments, directly owned real estate and trading securities, all of which are subject to greater volatility in their investment returns than fixed maturity investments. General economic conditions, changes in applicable tax laws and many other factors beyond our control can adversely affect the value of our non-fixed maturity investments and the realization of net investment income, and/or result in realized investment losses, as well as the level of returns available from such investments in the future. As a result of these factors, we may realize reduced returns on these investments, we may incur losses on sales of these investments and we may be required to write down the value of these investments, which could reduce our net investment income and result in realized investment losses.

During an economic downturn, our investment portfolio could be subject to higher risk. The value of our investment portfolio is subject to the risk that certain investments may default or become impaired due to a deterioration in the financial condition of one or more issuers of the securities held in our portfolio, or due to a deterioration in the financial condition of an insurer that guarantees an issuer's payments of such investments. Such defaults and impairments could reduce our net investment income and result in realized investment losses.

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

Our fixed maturity investment portfolio is invested, in substantial part, in obligations of states, municipalities, and political subdivisions (collectively referred to as the municipal bond portfolio). Notwithstanding the relatively low historical rates of default on many of these obligations, during an economic downturn, our municipal bond portfolio could be subject to a higher risk of default or impairment due to declining municipal tax bases and revenue. Our portfolio has also benefited from tax exemptions and certain other tax laws, including, but not limited to, those governing dividends-received deductions and tax credits (such as foreign tax credits). Federal and/or state tax legislation could be enacted in connection with deficit reduction or various types of fundamental tax reform that would lessen or eliminate some or all of the tax advantages currently benefiting us and could adversely affect the value of our investment portfolio.

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

Table of Contents

We may not be able to collect all amounts due to us from reinsurers, and reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect our business volume and profitability. The availability of reinsurance capacity can be impacted by general economic conditions and conditions in the reinsurance market, such as the occurrence of significant reinsured events. In particular in 2009, we expect there may be a significant capacity shortage with regard to catastrophe reinsurance, which could adversely impact the cost and availability of reinsurance to us.

Although the reinsurer is liable to us to the extent of the ceded reinsurance, we remain liable as the direct insurer on all risks reinsured. As a result, ceded reinsurance arrangements do not eliminate our obligation to pay claims. Accordingly, we are subject to credit risk with respect to our ability to recover amounts due from reinsurers.

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

Included in reinsurance recoverables are certain amounts related to structured settlements. Structured settlements comprise annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where we did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables as we retain the contingent liability to the claimant. In the event that the life insurance company fails to make the required annuity payments, we would be required to make such payments.

Many reinsurance companies and life insurance companies have been negatively impacted by deteriorating financial and economic conditions, including unprecedented financial market disruption. A number of these companies, including those with which we conduct business, have been downgraded and/or have been placed on negative outlook by various rating agencies.

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

We are exposed to credit risk in certain of our business operations. In addition to exposure to credit risk related to our investment portfolio and reinsurance recoverables discussed above, we are exposed to credit risk in several other areas of our business operations, including credit risk relating to policyholders, independent agents and brokers.

We are exposed to credit risk in our surety insurance operations, where we guarantee to a third party that our customer will satisfy certain performance obligations (e.g., a construction contract) or certain financial obligations. If our customer defaults, we may suffer losses and be unable to be reimbursed by our customer.

In addition, a portion of our business is written with large deductible insurance policies. Under workers' compensation insurance contracts with deductible features, we are obligated to pay the

Table of Contents

claimant the full amount of the claim. We are subsequently reimbursed by the contractholder for the deductible amount and, as a result, we are exposed to credit risk to the policyholder. Moreover, certain policyholders purchase retrospectively rated workers' compensation policies (i.e., policies in which premiums are adjusted after the policy period based on the actual loss experience of the policyholder during the policy period). Retrospectively rated policies expose us to additional credit risk to the extent that the adjusted premium is greater than the original premium.

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

To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk in an economic downturn. While we attempt to manage the risks discussed above through underwriting and investment guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. For example, collateral obtained may subsequently have little or no value. As a result, our exposure to the above credit risks could materially and adversely affect our results of operations and financial condition.

If actual claims exceed our loss reserves, or if changes in the estimated level of loss reserves are necessary, our financial results could be materially and adversely affected. 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 our assessment of facts and circumstances then known, reviews of historical settlement patterns, estimates of trends in claims severity and frequency, expected interpretations of legal theories of liability and other factors. In establishing reserves, we also take into account estimated recoveries from reinsurance, salvage and subrogation.

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; adverse changes in loss cost trends, including inflationary pressures in medical costs and auto and home repair costs; general economic conditions; legal trends and legislative changes; and varying judgments and viewpoints of the individuals involved in the estimation process, among others. The impact of many of these items on ultimate costs for claims and claim adjustment expenses is difficult to estimate. 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). The estimation of loss reserves may also be more difficult during times of adverse economic conditions due to unexpected changes in behavior of claimants and policyholders, including an increase in fraudulent reporting of exposures and/or losses, reduced maintenance of insured properties or increased frequency of small claims.

We continually refine our loss reserve estimates in a regular, ongoing process as historical loss experience develops and additional claims are reported and settled. Informed judgment is applied throughout the process, including the application of various individual experiences and expertise to multiple sets of data and analyses. Different experts may choose different assumptions when faced with material uncertainty, based on their individual backgrounds, professional experiences and areas of

Table of Contents

focus. Hence, such experts may at times produce estimates materially different from each other. This risk may be exacerbated in the context of an acquisition. Experts providing input to the various estimates and underlying assumptions include actuaries, underwriters, claim personnel and lawyers, as well as other Company management. Therefore, management may have to consider varying individual viewpoints as part of its estimation of loss reserves.

We attempt to consider all significant facts and circumstances known at the time loss reserves are established. Due to the inherent uncertainty underlying loss reserve estimates, the final resolution of the estimated liability for claims and claim adjustment expenses will likely 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 is currently reserved.

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

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

Our business could be harmed because of our potential exposure to asbestos and environmental claims and related litigation.

Asbestos Claims. We believe 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 we have experienced a decrease in asbestos claims over the past several years, we continue to receive a significant number of asbestos claims from our policyholders (which includes others seeking coverage under a policy), including claims against our 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 us. Bankruptcy proceedings have also caused increased settlement demands against those policyholders who are not in bankruptcy but who remain in the tort system. Currently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket. This trend of prioritizing claims involving credible evidence of injuries, along with the focus on defendants previously considered peripheral, contributes to the claims and claim adjustment expense payments we have experienced. In addition, our asbestos-related claims and claim adjustment expense experience is impacted by the unavailability of other insurance sources potentially available to policyholders, whether through the exhaustion of policy limits or insolvency.

We continue to be involved in coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage. In these instances, policyholders also may assert that each individual bodily injury claim should be treated as a separate occurrence under the policy. It is difficult to predict whether these policyholders will be successful on both issues.

Table of Contents

To the extent both issues are resolved in a policyholder's favor and our other defenses are not successful, our coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per-occurrence limits and the number of asbestos bodily injury claims against the policyholder. Accordingly, 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 us 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 us. As in the past, we will continue to pursue settlement opportunities.

In addition to claims against policyholders, proceedings have been launched directly against insurers, including us, by individuals challenging insurers' conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos-related bodily injuries. We anticipate the filing of other direct actions against insurers, including us, 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.

Environmental Claims. We continue to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. Mostly, these claims 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.

We have been, and continue to be, involved in litigation involving insurance coverage issues pertaining to environmental claims. We believe 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 us 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 we do not track the monetary amounts being sought in those few claims which indicate a monetary amount.

Asbestos and Environmental Claims. Uncertainties surrounding the final resolution of asbestos and environmental claims continue, and it is difficult to determine the ultimate exposure for these 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 we have 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 our previous assessment of these claims, the number and outcome of direct actions against us and future developments pertaining to our ability to recover reinsurance for asbestos and environmental claims. It is also not possible to predict changes in the legal and legislative environment and their impact on the future development of asbestos and environmental claims. This development will be affected by future court decisions and interpretations, as well as changes in applicable legislation, including legislation related to asbestos reform. It is also difficult to predict the ultimate outcome of large coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective.

While the ongoing evaluation of asbestos and environmental claims and associated liabilities considers the inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of our 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 materially and adversely affect our results of operations. See the "Asbestos Claims and Litigation" and "Environmental Claims and Litigation" sections of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations." Also see "Item 3 Legal Proceedings."

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

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

The effects of emerging claim and coverage issues on our business are uncertain. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. Examples of emerging claims and coverage issues include, but are not limited to:

- judicial expansion of policy coverage and the impact of new theories of liability;
- plaintiffs targeting property and casualty insurers, including us, in purported class action litigation relating to claims-handling and other practices;
- claims relating to construction defects, which often present complex coverage and damage valuation questions;
- claims under directors' & officers' insurance policies relating to: losses from involvement in financial market activities, such as mortgage or financial product origination, distribution or structuring; fraud, including those related to investment management businesses; possible accounting irregularities; and corporate governance issues;
- the assertion of "public nuisance" theories of liability, pursuant to which plaintiffs seek to recover monies spent to administer public health care programs and/or to abate hazards to public health and safety; and

Table of Contents

- medical developments that link health issues to particular causes, resulting in liability claims.

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

In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to extend the statutes of limitations or otherwise to repeal or weaken tort reforms could have an adverse impact on our business. In particular, recent shifts in the political landscape could increase the likelihood of the passing of such legislation in a number of states.

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

The intense competition that we face could harm our ability to maintain or increase our business volumes and our profitability. The property and casualty insurance industry is highly competitive, and we believe that it will remain highly competitive for the foreseeable future. We compete with both domestic and foreign insurers, a number of which are experiencing financial difficulties. Competitors that are experiencing financial difficulties may offer products at prices and on terms that are not consistent with our economic standards in an effort to maintain their business. The competitive environment in which we operate could also be impacted by current general economic conditions, which could reduce the volume of business available to us, as well as to our competitors. Also, competitors that receive financial support from the federal government may have advantages that are not available to other market participants. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation Outlook."

Our competitive position is based on many factors, including but not limited to our:

- ability to retain existing customers, to obtain new business and to profitably price our business;
- agent, broker and client relationships;
- speed of claims payment;
- premiums charged, contract terms and conditions, products and services offered (including the ability to design customized programs);
- perceived overall financial strength and corresponding ratings assigned by independent rating agencies;
- reputation, experience and qualifications of employees;
- geographic scope of business;
- local presence; and
- ability to keep pace relative to our competitors with changes in technology and information systems.

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

The insurance industry and we are the subject of a number of investigations by state and federal authorities in the United States. We cannot predict the outcome of these investigations or the impact on our business practices or financial results. As part of industry-wide investigations, we have

Table of Contents

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 us include our relationship with brokers and agents and our involvement with "non-traditional" insurance and reinsurance products. We may receive additional subpoenas and requests for information with respect to these matters. For further information, see "Item 3 Legal Proceedings".

It would be premature to reach any conclusions as to the likely outcome of these matters or the impact on our business or financial results. Potential outcomes could include enforcement proceedings or settlements resulting in fines, penalties and/or changes in business practices that could materially and adversely affect our results of operations. In addition, these investigations may result in changes in laws and regulations affecting the industry in general which could, in turn, also materially and adversely affect our results of operations.

Our businesses are heavily regulated and changes in regulation may reduce our profitability and limit our growth. We are extensively regulated and supervised in the jurisdictions in which we conduct business, including licensing and supervision by governmental regulatory agencies in such jurisdictions.

This regulatory system is generally designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders and other investors. For example, to protect policyholders whose insurance company becomes financially insolvent, guaranty funds have been established in all fifty states to pay the covered claims of policyholders in the event of an insolvency of an insurer. The funding of guaranty funds is provided through assessments levied against remaining insurers in the marketplace. As a result, the insolvency of one or more insurance companies could result in additional assessments levied against us.

This regulatory system also addresses authorization for lines of business, capital and surplus requirements, limitations on the types and amounts of certain investments, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurer's business.

In recent years, the state insurance regulatory framework has come under increased federal scrutiny, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the National Association of Insurance Commissioners (NAIC) and state insurance regulators continually reexamine existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws and regulations. In addition, Congress and some federal agencies from time to time investigate the current condition of insurance regulation in the United States to determine whether to impose federal or national regulation or to allow an optional federal charter, similar to the option available to most banks. In the future, additional federal regulation may be enacted which could impact the ways in which we conduct our business and could result in higher compliance costs. We cannot predict the effect any proposed or future legislation or NAIC initiatives may have on the conduct of our business or results of operations.

Although the United States federal government does not currently directly regulate the insurance business, changes in federal legislation, regulation and/or administrative policies in several areas, including changes in financial services regulation (e.g., the repeal of the McCarran-Ferguson Act) and federal taxation, can significantly harm the insurance industry, including us. A number of proposals being considered by the U.S. Congress, if they became law, would give the federal government an increased role in insurance regulation, including supervisory authority over the holding company.

Further, in a time of financial uncertainty or a prolonged economic downturn, regulators may choose to adopt more restrictive insurance laws and regulations. For example, insurance regulators may choose to restrict the ability of insurance subsidiaries to make payments to their parent companies or reject rate increases due to the economic environment.

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

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

The inability of our insurance subsidiaries to pay dividends to our holding company in sufficient amounts would harm our ability to meet our obligations and to pay future shareholder dividends. Our holding company relies on dividends from our insurance subsidiaries to meet our obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders and corporate expenses. The ability of our insurance subsidiaries to pay dividends to us in the future will depend on their statutory surplus, earnings and regulatory restrictions.

We are subject to regulation by some states as an insurance holding company system. Our insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of insurance regulatory authorities. In a time of prolonged economic downturn, regulators may choose to further restrict the ability of insurance subsidiaries to make payments to their parent companies. The ability of our insurance subsidiaries to pay dividends to our holding company is also restricted by regulations that set standards of solvency that must be met and maintained. The inability of our insurance subsidiaries to pay dividends to our holding company in an amount sufficient to meet our debt service obligations and other cash requirements could harm our ability to meet our obligations and to pay future shareholder dividends.

Disruptions to our relationships with our independent agents and brokers could adversely affect us. We market our insurance products primarily through independent agents and brokers. An important part of our business is written through less than a dozen such intermediaries. Loss of all or a substantial portion of the business provided through such agents and brokers could materially and adversely affect our future business volume and results of operations.

We rely on internet applications for the marketing and sale of certain of our products, and we may increasingly rely on internet applications and toll-free numbers for distribution. In some instances, our agents and brokers are required to access separate business platforms to execute the sale of our personal insurance or commercial insurance products. Should internet disruptions occur, or frustration with our business platforms or distribution initiatives develop among our independent agents and brokers, the resulting loss of business could materially and adversely affect our future business volume and results of operations.

Loss of or significant restriction on the use of credit scoring in the pricing and underwriting of Personal Insurance products could reduce our future profitability. In Personal Insurance, we use credit scoring as a factor in pricing decisions where allowed by state law. Some consumer groups and regulators have questioned whether the use of credit scoring unfairly discriminates against people with low incomes, minority groups and the elderly and are calling for the prohibition or restriction on the use of credit scoring in underwriting and pricing. In August of 2008, for example, the Michigan Court of Appeals ruled to allow state regulators to prohibit insurers from using customers' credit scores to determine home and auto insurance rates. Laws or regulations that significantly curtail the use of credit scoring, if enacted in a large number of states, could adversely affect our future profitability.

We are subject to a number of risks associated with our business outside the United States. We conduct business outside the United States primarily in the United Kingdom, Canada and Ireland. We have also started to explore opportunities in other countries, including in emerging markets such as India and China. While our business outside of the United States currently constitutes a relatively small portion of our revenues, in conducting such business we are subject to a number of significant risks, particularly in emerging economies. These risks include restrictions such as price controls, capital controls, exchange controls and other restrictive governmental actions, which could have an adverse effect on our business and our reputation. In addition, some countries, particularly emerging economies, have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of the local laws. Failure to comply with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally.

We could be adversely affected if our controls to ensure compliance with guidelines, policies and legal and regulatory standards are not effective. Our business is highly dependent on our ability to engage on a daily basis in a large number of insurance underwriting, claim processing and investment activities, many of which are highly complex. These activities often are subject to internal guidelines and policies, as well as legal and regulatory standards. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. If our controls are not effective, it could lead to financial loss, unanticipated risk exposure (including underwriting, credit and investment risk) or damage to our reputation.

Our business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology. We depend in large part on our technology systems for conducting business and processing claims, and thus our business success is dependent on maintaining the effectiveness of existing technology systems and on continuing to develop and enhance technology systems that support our business processes and strategic initiatives in a cost and resource efficient manner. Some system development projects are long-term in nature, may negatively impact our expense ratios as we invest in the projects and may cost more than we expect to complete. They also may not deliver the benefits we expect once they are complete. If we do not effectively and efficiently manage and upgrade our technology portfolio, or if the costs of doing so are higher than we expect, our ability to provide competitive services to new and existing customers in a cost effective manner and our ability to implement our strategic initiatives could be adversely impacted.

If we experience difficulties with technology, data security and/or outsourcing relationships our ability to conduct our business could be negatively impacted. While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present certain risks. Our business is highly dependent upon our employees' ability to perform, in an efficient and uninterrupted fashion, necessary business functions. A shut-down of, or inability to, access one or more of our facilities, a power outage or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. In addition, because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions. Computer viruses, hackers and other external hazards could expose our data systems to security breaches. These increased risks, and expanding regulatory requirements regarding data security, could expose us to data loss, monetary and reputational damages and significant increases in compliance costs. As a result, our ability to conduct our business might be adversely affected.

We outsource certain technology and business process functions to third parties and may do so increasingly in the future. If we do not effectively develop and implement our outsourcing strategy, third party providers do not perform as anticipated or we experience technological or other problems with a transition, we may not realize productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business. Our outsourcing of certain technology and business process functions to third parties may expose us to enhanced risk related to data security, which could result in monetary and reputational damages. In addition, our ability to receive services from third party providers outside of the United States might be impacted by cultural differences, political instability, unanticipated regulatory requirements or policies inside or outside of the United States. As a result, our ability to conduct our business might be adversely affected.

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

- the potential disruption of our ongoing business;
- the ineffective integration of underwriting, claims handling and actuarial practices;
- the increase in the inherent uncertainty of reserve estimates for a period of time, until stable trends reestablish themselves within the combined organization, as past trends (that were a function of past products, past claims handling procedures, past claims departments and past legal and other experts) may not repeat themselves;
- the diversion of management time and resources to acquisition integration challenges;
- the loss of key employees; and
- the cultural challenges associated with integrating employees.

There is no guarantee that any businesses acquired in the future will be successfully integrated, and the ineffective integration of our businesses and processes may result in substantial costs or delays and adversely affect our ability to compete. Also, the acquired business may not perform as projected, and any cost savings and other synergies anticipated from the acquisition may not materialize.

Item 1B. 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 considered 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 December 31, 2008, 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 December 31, 2008, 2007, 2006, 2005 and 2004 would not be material. Increases to goodwill and deferred tax liabilities would be reflected on the Company's balance sheet at 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 cooperated with the Division's requests for information.

Item 2. PROPERTIES

The Company leases its principal executive offices in New York, New York, as well as 191 field and claim offices totaling approximately 5.3 million square feet throughout the United States under leases or subleases with third parties. The Company owns six buildings in Hartford, Connecticut. The Company currently occupies approximately 1.8 million square feet of office space in these buildings. The Company also owns office buildings located at 385 Washington Street and 130 West Sixth Street, St. Paul, Minnesota. These buildings are adjacent to one another and consist of approximately 1.1 million square feet of gross floor space. The Company also owns other real property, including office buildings in Denver, Colorado and Fall River, Massachusetts, as well as a data center located in Norcross, Georgia.

The Company owns a building in London, England, which houses a portion of its operations in the United Kingdom.

The Company, through its subsidiaries, owns an investment portfolio of income-producing properties and real estate funds. Included in this portfolio are four office buildings in which the Company holds a 50% ownership interest located in New York, New York, which collectively accounted for approximately 10% of the carrying value of the property portfolio at December 31, 2008.

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

Item 3. LEGAL PROCEEDINGS

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 II Item 7 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."

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.

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 seeking review of the Second Circuit's decision, and on December 12, 2008, the Petitions were granted. Unless the Supreme Court 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.

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 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 was commenced after the announcement of litigation brought in October 2004 by the New York Attorney General's office against a major broker. The Company completed its review. With respect to the identified finite products purchased and sold, the Company concluded that no adjustment to previously issued financial statements was required. Any authority with open inquiries or investigations could ask that additional work be performed or reach conclusions different from the Company's.

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.

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 "Item 1B Unresolved Staff Comments." 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 cooperated with the Division's requests for information.

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

NONE.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Table of Contents

PART II

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

The Company's common stock is traded on the New York Stock Exchange under the symbol "TRV." The number of holders of record, including individual owners, of the Company's common stock was 79,710 as of February 13, 2009. This is not the actual number of beneficial owners of the Company's common stock, as shares are held in "street name" by brokers and others on behalf of individual owners. The following table sets forth the amount of cash dividends declared per share and the high and low closing sales prices of the Company's common stock for each quarter during the last two fiscal years.

	High	Low	Cash Dividend Declared
2008			
First Quarter	$53.06	$44.92	$ 0.29
Second Quarter	52.15	43.40	0.30
Third Quarter	50.80	36.00	0.30
Fourth Quarter	45.20	30.50	0.30
2007			
First Quarter	$53.74	$49.59	$ 0.26
Second Quarter	56.76	51.85	0.29
Third Quarter	55.01	48.38	0.29
Fourth Quarter	55.18	50.05	0.29

The Company paid cash dividends per share of $1.19 in 2008 and $1.13 in 2007. Future dividend decisions will be based on, and affected by, a number of factors, including the operating results and financial requirements of the Company and the impact of dividend restrictions. For information on dividends, as well as restrictions on the ability of certain of the Company's subsidiaries to transfer funds to the Company in the form of cash dividends or otherwise, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." Dividends will be paid by the Company only if declared by its Board of Directors out of funds legally available, and subject to any other restrictions that may be applicable to the Company.

Table of Contents

SHAREHOLDER RETURN PERFORMANCE GRAPH

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

(1) Assumes $100 invested in common shares of The St. Paul Companies, Inc. on December 31, 2003. The performance reflected is that of The St. Paul Companies, Inc. only until the date of the merger (April 1, 2004), and is that of The Travelers Companies, Inc. thereafter.

(2) Companies in the S&P Property-Casualty Index as of December 31, 2008 were the following: The Travelers Companies, Inc., The Chubb Corporation, Cincinnati Financial Corporation, Progressive Corporation, Allstate Corporation, MBIA, Inc. and XL Capital, Ltd.

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

Table of Contents

ISSUER PURCHASES OF EQUITY SECURITIES

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

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs
Oct. 1, 2008	Oct. 31, 2008	2,729,696	$ 36.87	2,712,550	$ 3,809,857,539
Nov. 1, 2008	Nov. 30, 2008	199	41.34		3,809,857,539
Dec. 1, 2008	Dec. 31, 2008	4,037	43.35		3,809,857,539
Total		2,733,932	$ 36.88	2,712,550	$ 3,809,857,539

The Company repurchased 21,382 shares during this three-month period 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. The original authorized repurchase capacity was $2 billion; in January 2007, the board of directors authorized an additional $3 billion of repurchase capacity. In January 2008, the board of directors authorized an additional $5 billion for share repurchases. Through December 31, 2008, the Company had repurchased a cumulative total of 123.9 million shares for a total cost of $6.19 billion and had $3.81 billion of remaining capacity at December 31, 2008 under the authorization.

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

Table of Contents

Item 6. SELECTED FINANCIAL DATA

For accounting purposes, the merger of SPC and TPC in 2004 was accounted for as a reverse acquisition with TPC treated as the accounting acquirer. Accordingly, this transaction was accounted for as a purchase business combination, using TPC's historical financial information and applying fair value estimates to the acquired assets, liabilities and commitments of SPC as of April 1, 2004. Historical results are not necessarily indicative of results to be expected in the future.

	At and for the year ended December 31,(1)				
	2008	**2007**	**2006**	**2005**	**2004**
	(in millions, except per share amounts)				
Total revenues	**$ 24,477**	$ 26,017	$ 25,090	$ 24,365	$ 22,544
Income from continuing operations	**$ 2,924**	$ 4,601	$ 4,208	$ 2,061	$ 867
Income (loss) from discontinued operations				(439)	88
Net income	**$ 2,924**	$ 4,601	$ 4,208	$ 1,622	$ 955
Total investments	**$ 70,738**	$ 74,818	$ 72,268	$ 68,287	$ 64,368
Total assets	**109,751**	115,224	115,292	113,736	111,246
Claims and claim adjustment expense reserves	**54,723**	57,700	59,288	61,090	59,070
Total debt	**6,181**	6,242	5,760	5,850	6,313
Total liabilities	**84,432**	88,608	90,157	91,433	90,045
Total shareholders' equity	**25,319**	26,616	25,135	22,303	21,201
Basic earnings per share:					
Income from continuing operations	**$ 4.90**	$ 7.04	$ 6.12	$ 3.04	$ 1.42
Income (loss) from discontinued operations(2)				(0.65)	0.14
Net income	**$ 4.90**	$ 7.04	$ 6.12	$ 2.39	$ 1.56
Diluted earnings per share:					
Income from continuing operations	**$ 4.82**	$ 6.86	$ 5.91	$ 2.95	$ 1.40
Income (loss) from discontinued operations(2)				(0.62)	0.13
Net income	**$ 4.82**	$ 6.86	$ 5.91	$ 2.33	$ 1.53
Year-end common shares outstanding	**585.1**	627.8	678.3	693.4	670.3
Per common share data:					
Cash dividends	**$ 1.19**	$ 1.13	$ 1.01	$ 0.91	$ 1.16
Book value	**$ 43.12**	$ 42.22	$ 36.86	$ 31.94	$ 31.35

(1) On April 1, 2004, TPC merged with SPC, as a result of which TPC became a wholly-owned subsidiary of SPC, and SPC changed its name to The St. Paul Travelers Companies, Inc. On February 26, 2007, the name of the Company was changed to The Travelers Companies, Inc. All financial information presented herein for the year ended December 31, 2004 reflects the accounts of TPC for the three months ended March 31, 2004 and the consolidated accounts of SPC and TPC for the nine months ended December 31, 2004.

(2) In August 2005, the Company completed its divestiture of Nuveen Investments, Inc., its asset management subsidiary acquired in the merger. Accordingly, the Company's share of Nuveen Investments' results prior to the divestiture was classified as discontinued

operations, along with the net after-tax loss on disposal. Prior period results were reclassified to be consistent with the 2005 presentation.

Table of Contents

Item 7. 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).

2008 FINANCIAL HIGHLIGHTS

2008 Consolidated Results of Operations

- Net income of $2.92 billion, or $4.90 per share basic and $4.82 diluted
- Net earned premiums of $21.58 billion
- Catastrophe losses of $1.41 billion pretax ($919 million after-tax)
- Net favorable prior year reserve development of $1.54 billion pretax ($1.00 billion after-tax)
- GAAP combined ratio of 91.9%
- Pretax net investment income of $2.79 billion ($2.30 billion after-tax)
- Net realized investment losses of $415 million pretax ($271 million after-tax)

2008 Consolidated Financial Condition

- Total investments of $70.74 billion; fixed maturities and short-term securities comprise 94% of total investments
- Total assets of $109.75 billion
- Total debt of $6.18 billion, resulting in a debt to total capital ratio of 19.5%
- Repurchased 45.0 million common shares for total cost of $2.12 billion under share repurchase authorization
- Shareholders' equity of $25.32 billion; book value per common share of $43.12
- Holding company liquidity of $2.15 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.

69

Table of Contents

Consolidated Results of Operations

(for the year ended December 31, in millions except per share amounts)	2008	2007	2006
Revenues			
Premiums	**$ 21,579**	$ 21,470	$ 20,760
Net investment income	**2,792**	3,761	3,517
Fee income	**390**	508	591
Net realized investment gains (losses)	**(415)**	154	11
Other revenues	**131**	124	211
Total revenues	**24,477**	26,017	25,090
Claims and expenses			
Claims and claim adjustment expenses	**12,993**	12,397	12,244
Amortization of deferred acquisition costs	**3,880**	3,706	3,339
General and administrative expenses	**3,518**	3,352	3,458
Interest expense	**370**	346	324
Total claims and expenses	**20,761**	19,801	19,365
Income before income taxes	**3,716**	6,216	5,725
Income tax expense	**792**	1,615	1,517
Net income	**$ 2,924**	$ 4,601	$ 4,208
Net income per share			
Basic	**$ 4.90**	$ 7.04	$ 6.12
Diluted	**$ 4.82**	$ 6.86	$ 5.91
GAAP combined ratio			
Loss and loss adjustment expense ratio	**59.4%**	56.6%	57.5%
Underwriting expense ratio	**32.5**	30.8	30.6
GAAP combined ratio	**91.9%**	87.4%	88.1%

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 earnings per common share are presented on a diluted basis.

Overview

Net income of $4.82 per common share in 2008 was 30% lower than the $6.86 per common share in 2007. Net income in 2008 totaled $2.92 billion, 36% lower than $4.60 billion in 2007. The lower rate of decline in per share income compared with the rate of decline in actual income reflected the impact of the Company's significant common share repurchases. The decrease in net income in 2008 was primarily due to a significant increase in the cost of catastrophes and a significant decline in net investment income. Also contributing to the decline were net realized investment losses, a small increase in the number of large losses that exceeded expectations, an increase in non-catastrophe related weather losses, the impact of competitive market conditions on pricing, the impact of loss cost trends and a decline in fee income. Net income in 2008 reflected an $89 million tax benefit related to the sale of a subsidiary. In 2007, net income included a net pretax benefit of $163 million due to the implementation of a new fixed, value-based compensation program for the majority of the Company's agents which resulted in a reduction in commission expense compared to what would have otherwise been reported, due to a change in the timing of expense recognition. These factors were partially offset by an increase in net favorable prior year reserve development, which totaled $1.54 billion in 2008,

Table of Contents

compared with $546 million in 2007. The cost of catastrophes in 2008, net of reinsurance and including hurricane-related assessments of $141 million (discussed below), totaled $1.41 billion, compared with $167 million in 2007. Hurricanes Ike and Gustav, as well as several other storms throughout the United States, accounted for the cost of catastrophes in 2008. Net income in 2007 also included a benefit of $86 million resulting from the favorable resolution of various prior year federal tax matters and a pretax 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.

Net income of $6.86 per common share in 2007 was 16% higher than the $5.91 per common share in 2006. Net income in 2007 totaled $4.60 billion, 9% higher than $4.21 billion in 2006. The higher rate of growth in per share income compared with the rate of growth in actual income in 2007 over 2006 reflected the impact of the Company's significant common share repurchases since its repurchase program began in the second quarter of 2006. The increase in net income in 2007 reflected growth in net investment income, a higher level of net favorable prior year reserve development, an increase in net realized investment gains, favorable current accident year results and increased business volume, partially offset by an increase in expenses and a decline in fee income. Net favorable prior year reserve development totaled $546 million in 2007, compared with net favorable prior year reserve development of $394 million in 2006. Expenses in 2007 included a net pretax benefit of $163 million due to the implementation of the new fixed, value-based compensation program for the majority of the Company's agents. Catastrophe losses in 2007 totaled $167 million, compared with $103 million in 2006. Net income in both 2007 and 2006 included after-tax benefits of $86 million due to the favorable resolution of various prior year tax matters. The 2007 total also included net realized investment gains of $154 million, compared with net realized investment gains of $11 million in 2006.

Revenues

Earned Premiums

Earned premiums in 2008 totaled $21.58 billion, an increase of $109 million, or less than 1%, over 2007. In March 2007, the Company sold its Mexican surety subsidiary, Afianzadora Insurgentes, S.A. de C.V. (Afianzadora Insurgentes), which accounted for $27 million of earned premiums in 2007 prior to its sale. In April 2007, the Company sold Mendota Insurance Company and its subsidiaries (collectively, Mendota), which primarily offered nonstandard automobile coverage and accounted for $46 million of earned premiums in 2007 prior to its sale. Adjusting for these sales in 2007, consolidated earned premiums in 2008 increased by $182 million, or 1%, over 2007. In the Business Insurance segment, earned premiums in 2008 declined 1% from 2007 despite continued strong business retention rates, reflecting the impact of competitive market conditions on pricing and new business. In the Financial, Professional & International Insurance segment, earned premium growth of 2% in 2008 (adjusted for the sale of Afianzadora Insurgentes) was driven by changes in the terms of certain reinsurance treaties for Bond & Financial Products. In the Personal Insurance segment, earned premium growth of 3% in 2008 (adjusted for the sale of Mendota) reflected continued strong business retention rates and new business volume, coupled with continued renewal price increases.

Earned premiums in 2007 totaled $21.47 billion, an increase of $710 million, or 3%, over 2006. Afianzadora Insurgentes and Mendota accounted for $78 million and $176 million of earned premiums,

Table of Contents

respectively, in 2006. Adjusting for the sales of these subsidiaries in both years, earned premiums in 2007 grew 4% over 2006. In the Business Insurance segment, earned premium growth of 4% in 2007 over 2006 primarily reflected the impact of the growth in business volume over the preceding twelve months. In the Financial, Professional & International Insurance segment, earned premium growth of 4% in 2007 over 2006 (adjusted for the sale of Afianzadora Insurgentes) was driven by the favorable impact of foreign currency rates of exchange, growth in business volume and a benefit from adjustments to prior year premium estimates for the Company's operations at Lloyd's. In the Personal Insurance segment, earned premium growth of 6% in 2007 over 2006 (adjusted for the sale of Mendota) reflected continued strong business retention rates, continued renewal price increases and growth from new business volumes over the preceding twelve months.

Net Investment Income

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

(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Average investments(a)	**$ 74,197**	$ 73,872	$ 71,252
Pretax net investment income	**2,792**	3,761	3,517
After-tax net investment income	**2,299**	2,915	2,712
Average pretax yield(b)	**3.8%**	5.1%	4.9%
Average after-tax yield(b)	**3.1%**	3.9%	3.8%

(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 $2.79 billion in 2008 declined $969 million, or 26%, from 2007, primarily due to lower returns from non-fixed maturity investments, which were negative in 2008, compared with strong positive returns in 2007. Non-fixed maturity investments include private equity partnerships, hedge funds and real estate partnerships that are accounted for under the equity method of accounting and typically report financial statement information on a lag. These partnerships and funds produced negative net investment income of $327 million in 2008 compared with net investment income of $473 million in 2007. The value of many of these investments was updated through year-end based upon information made available by certain of the investment managers. This update accounted for $87 million of the non-fixed maturity portfolio's investment loss described above. The decline in net investment income from these investments in 2008 reflected market conditions, which resulted in a lower level of transactions and lower market values compared to those at December 31, 2007. Net investment income from the Company's fixed maturity portfolio in 2008 also declined from 2007, primarily due to a significant decline in short-term interest rates. The amortized cost of the fixed maturity portfolio at December 31, 2008 totaled $61.57 billion, $2.58 billion lower than at the same date in 2007, primarily reflecting the use of $2.12 billion of funds for the Company's common share repurchases during 2008, the payment of $715 million of dividends to shareholders, the transfer of $662 million of fixed maturity investments as part of the sale of Unionamerica, and $450 million of contributions to the Company's pension plan, which were partially offset by strong cash flows from operating activities. The average pretax investment yield of 3.8% in 2008 declined from 5.1% in 2007, primarily reflecting the negative investment income from non-fixed maturity investments in 2008.

Net investment income totaled $3.76 billion in 2007, an increase of $244 million, or 7%, over 2006 net investment income of $3.52 billion. The increase in 2007 was primarily the result of continued growth in the Company's fixed maturity portfolio resulting from strong cash flows from operating activities and higher yields on long-term taxable fixed maturity securities. Also contributing to investment income growth in 2007 were strong levels of net investment income from the Company's

Table of Contents

real estate partnerships. The amortized cost of the fixed maturity portfolio at December 31, 2007 totaled $64.15 billion, $1.91 billion higher than year-end 2006. The average pretax investment yield was 5.1% in 2007, compared with 4.9% in 2006. The increase primarily reflected strong returns generated by the real estate partnerships and higher yields on taxable investments purchased in 2007.

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 declines in fee income in 2008 and 2007 compared with the respective prior years are described in the Business Insurance segment discussion that follows.

Net Realized Investment Gains (Losses)

Net realized investment losses of $415 million in 2008 were driven by $420 million of investment impairments. The 2008 impairments included $186 million related to the deteriorated financial position of various issuers (including $70 million related to securities issued by Lehman Brothers Holdings Inc. and its subsidiaries), $113 million 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, $64 million related to structured mortgage obligations and $57 million related to securities the Company has identified for potential sales prior to a recovery in market value. Net realized investment losses in 2008 also included $77 million related to convertible bonds wherein the embedded option price is marked to market through realized gains or losses and $53 million of losses related to U.S. Treasury futures contracts (which require a daily mark-to-market settlement and are used to shorten the duration of the Company's fixed maturity investment portfolio). Partially offsetting these realized investment losses in 2008 were net realized gains of $50 million related to foreign currency exchange gains, $39 million from the sale of subsidiaries and $17 million of net realized investment gains from the sale of venture capital investments.

Net realized investment gains of $154 million in 2007 included $91 million of net realized investment gains (net of impairment losses of $16 million) generated by the venture capital portfolio (including an $81 million net realized investment gain from the bundled sale of a substantial portion of the Company's venture capital investment holdings), $63 million of net realized investment gains from the sale of a privately held security, $21 million of net realized investment gains related to the Company's holdings of stock purchase warrants of Platinum Underwriters Holdings, Ltd., a publicly-held company, and $5 million of net realized investment gains (net of impairment losses of $37 million) from the Company's fixed maturity portfolio. These gains were partially offset by a net realized investment loss of $24 million related to the divestiture of a subsidiary. Net realized investment gains in 2006 totaled $11 million.

Table of Contents

Further information regarding the nature of impairment charges in each year is included in the "Investment Portfolio" section later in this discussion.

Other Revenues

Other revenues in all periods presented primarily consist of premium installment charges. In 2007, other revenues also reflected a $39 million loss related to the Company's redemption of its 4.50% convertible junior subordinated notes in April 2007, consisting of the redemption premium paid and the write-off of remaining debt issuance costs. Other revenues in 2006 included a $42 million gain on the redemption of the Company's $593 million, 7.60% subordinated debentures.

Written Premiums

Consolidated gross and net written premiums were as follows:

	Gross Written Premiums		
(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Business Insurance	**$ 12,580**	$ 13,017	$ 13,047
Financial, Professional & International Insurance	**3,966**	4,037	3,981
Personal Insurance	**7,291**	7,144	7,011
Total	**$ 23,837**	$ 24,198	$ 24,039

	Net Written Premiums		
(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Business Insurance	**$ 11,220**	$ 11,318	$ 11,046
Financial, Professional & International Insurance	**3,468**	3,465	3,393
Personal Insurance	**6,995**	6,835	6,711
Total	**$ 21,683**	$ 21,618	$ 21,150

Afianzadora Insurgentes and Mendota generated combined gross and net written premiums of $79 million and $74 million, respectively, in 2007, prior to their sale. Adjusting for the sale of these operations in 2007, gross written premiums in 2008 declined 1% and net written premiums in 2008 increased by less than 1% compared with 2007. In the Business Insurance segment, net written premiums decreased by 1% from 2007, despite strong business retention rates. Premium growth in Industry-Focused Underwriting, Select Accounts and Commercial Accounts in 2008, which was generally driven by strong business retention rates and new business volume, was largely offset by premium declines in National Accounts, Target Risk Underwriting and Specialized Distribution which primarily resulted from declines in renewal price changes. Net written premiums in the Financial, Professional & International Insurance segment adjusted for the sale of Afianzadora Insurgentes increased by 1% over 2007, largely driven by 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 Personal Insurance segment, net written premiums in 2008 adjusted for the sale of Mendota increased 3% over 2007, reflecting continued strong retention rates, renewal price increases and growth in new business levels.

Afianzadora Insurgentes and Mendota generated combined gross and net written premiums of $279 million and $265 million, respectively, in 2006. Adjusting for the impact of premium volume from those operations in both years, the Company's consolidated gross and net written premiums in 2007 increased 2% and 3%, respectively, over 2006. In Business Insurance, net written premium growth of 2% was concentrated in the Commercial Accounts, Select Accounts and Industry-Focused Underwriting markets, primarily driven by strong business retention rates coupled with higher new business volume.

Table of Contents

In addition, a decline in premiums ceded for catastrophe reinsurance contributed to net written premium growth over 2006 in Business Insurance. In Financial, Professional & International Insurance, net written premium growth of 4% (adjusted for the sale of Afianzadora Insurgentes) reflected the favorable impact of foreign currency rates of exchange and strong business volume in construction surety, in Canada and at Lloyd's. Adjustments to prior year premium estimates for the Company's operations at Lloyd's also contributed to the growth in net premium volume in 2007. Net written premium growth of 4% in the Personal Insurance segment in 2007 (adjusted for the sale of Mendota) was driven by continued strong retention rates and renewal price increases, partially offset by a decline in new business volume, particularly for coastal coverages.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses totaled $12.99 billion in 2008, $596 million, or 5%, higher than the 2007 total of $12.40 billion, primarily reflecting a significant increase in the cost of catastrophes, an increase in the number of large losses that exceeded expectations, an increase in non-catastrophe related weather losses in Personal Insurance 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 2008 totaled $1.26 billion, primarily resulting from Hurricanes Ike and Gustav, as well as wind, rain and hail storms in several regions of the United States throughout the year. The cost of catastrophes in 2007 totaled $167 million, primarily resulting from wildfires in California and several wind, rain and hail storms throughout the United States. Net favorable prior year reserve development in 2008 totaled $1.54 billion, compared with $546 million of net favorable prior year reserve development in 2007.

The Company's three business segments each experienced net favorable prior year reserve development in 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, commercial multi-peril, commercial property and commercial automobile product lines, partially offset by increases in workers' compensation reserves and $70 million and $85 million increases in asbestos and environmental reserves, respectively (which are discussed in more detail in the "Asbestos Claims and Litigation" and "Environmental Claims and Litigation" sections herein). The Financial, Professional & International Insurance segment experienced favorable 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 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 the Homeowners and Other product line.

Each of the Company's three business segments also experienced net favorable prior year reserve development in 2007. In Business Insurance, net favorable prior year reserve development was primarily driven by better than expected loss development for recent accident years in the commercial multi-peril, general liability, commercial automobile and property product lines. Net total prior year reserve development in 2007 in the Business Insurance segment included a $185 million increase to environmental reserves. In the Financial, Professional & International Insurance segment, net favorable prior year reserve development in 2007 primarily reflected better than expected loss development in international property, employers' liability, professional indemnity and motor lines of business for recent accident years. In the Personal Insurance segment, net favorable prior year reserve development in 2007 occurred in both the Automobile and Homeowners and Other lines of business.

Table of Contents

Factors contributing to net favorable prior year reserve development in each segment in 2008, 2007 and 2006 are discussed in more detail in the segment discussions that follow.

Claims and claim adjustment expenses of $12.40 billion in 2007 were $153 million, or 1%, higher than the 2006 total of $12.24 billion. The 2007 total included $546 million of net favorable prior year reserve development and $167 million of catastrophe losses, whereas the 2006 total included $394 million of net favorable prior year reserve development and $103 million of catastrophe losses.

Net favorable prior year reserve development in 2006 was concentrated in the Personal Insurance segment, primarily reflecting better than expected loss experience in the auto bodily injury and non-catastrophe related Homeowners and Other lines of business, and a reduction in loss estimates for the 2005 hurricanes. The Business Insurance segment also experienced net favorable prior year loss experience in its ongoing operations in 2006, primarily in the commercial multi-peril, general liability, property and commercial automobile lines of business. The favorable development in 2006 was partially offset by $155 million and $120 million increases to asbestos and environmental reserves, respectively, which are discussed in more detail in the "Asbestos Claims and Litigation" and "Environmental Claims and Litigation" sections herein. There was also unfavorable prior year reserve development in runoff assumed reinsurance business in 2006.

In 2006, catastrophe losses totaled $103 million, all of which was incurred in the Personal Insurance segment and resulted from several wind, rain, hail and snow storms in the United States throughout the year.

Amortization of Deferred Acquisition Costs

The amortization of deferred acquisition costs totaled $3.88 billion in 2008, $174 million, or 5%, higher than the comparable 2007 total of $3.71 billion. The growth in amortization costs in 2008 primarily reflected the higher level of amortized commission expense resulting from the Company's implementation of a new fixed agent compensation program in 2007, described in more detail below.

The amortization of deferred acquisition costs totaled $3.71 billion in 2007, $367 million, or 11%, higher than the comparable total of $3.34 billion in 2006, primarily reflecting a $213 million increase from the implementation of a new fixed agent compensation program for the majority of the Company's agents described below. The remaining increase was primarily due to growth in business volume in 2007.

General and Administrative Expenses

General and administrative expenses totaled $3.52 billion in 2008, an increase of $166 million, or 5%, over the comparable 2007 total of $3.35 billion. This increase primarily reflected the impact of $141 million of hurricane-related assessments.

General and administrative expenses totaled $3.35 billion in 2007, a decrease of $106 million, or 3%, from the comparable 2006 total of $3.46 billion. The decline primarily reflected the impact of the Company's implementation of the new fixed agent compensation program described in the following paragraph, which was largely offset by expenses related to increased business volume and continued expenditures to support business growth and product development.

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 program. The Company's total payout rate for all agent compensation for 2007 was substantially the same as for 2006; 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

Table of Contents

contingent commission program was not subject to deferred acquisition cost accounting treatment and, therefore, was expensed as incurred. That timing difference resulted in a benefit to income during the 2007 transition year. The impact of this change in 2007 was to lower reported expenses by $376 million in the "General and Administrative Expenses" income statement line, and increase reported expenses by $213 million in the "Amortization of Deferred Acquisition Costs" income statement line, compared to what would have been reported under the prior contingent commission program.

Interest Expense

Interest expense in 2008 totaled $370 million, an increase of $24 million, or 7%, over the 2007 total of $346 million. The increase primarily reflected a higher average level of debt outstanding at a higher weighted average interest rate during 2008. Interest expense of $346 million in 2007 was $22 million higher than the comparable 2006 total of $324 million. The increase primarily reflected the impact of the Company's issuance of debt in 2007, which is described in more detail in the "Liquidity and Capital Resources" section herein. Proceeds from a substantial portion of debt issuances in 2007 were used to fund the redemption and maturity of certain of the Company's indebtedness.

Effective Tax Rate

The Company's effective tax rate was 21.3%, 26.0% and 26.5% in 2008, 2007 and 2006, respectively. The declines in 2008 and 2007 primarily reflected a higher proportion of tax-exempt investment income.

GAAP Combined Ratios

The consolidated loss and loss adjustment expense ratio of 59.4% for 2008 was 2.8 points higher than the loss and loss adjustment expense ratio of 56.6% in 2007. The cost of catastrophes accounted for 5.8 points of the 2008 loss and loss adjustment expense ratio, whereas the 2007 loss and loss adjustment expense ratio included a 0.7 point impact from catastrophe losses. The 2008 and 2007 loss and loss adjustment expense ratios included 7.1 point and 2.5 point benefits, respectively, from net favorable prior year reserve development. The 2008 loss and loss adjustment expense ratio adjusted for the cost of catastrophes and prior year reserve development was 2.3 points higher than the respective 2007 ratio on the same basis, reflecting the impact of competitive market conditions on pricing, a small increase in the number of large losses, non-catastrophe weather related losses and loss cost trends.

The underwriting expense ratio of 32.5% in 2008 was 1.7 points higher than the 2007 underwriting expense ratio of 30.8%. The 2008 expense ratio included a 0.7 point impact of the hurricane-related assessments, whereas the 2007 ratio included a 0.8 point benefit from the implementation of the new fixed agent compensation program described above. Adjusting for these factors in both years, the adjusted 2008 expense ratio was 0.2 points higher than the adjusted expense ratio in 2007, reflecting continued investments to support business growth and product development, as well as salary increases in the normal course of business.

The consolidated loss and loss adjustment expense ratio of 56.6% in 2007 was 0.9 points lower than the comparable 2006 loss and loss adjustment expense ratio of 57.5%. The 2007 and 2006 loss and loss adjustment expense ratios included benefits of 2.5 points and 1.9 points, respectively, from net favorable prior year reserve development. Catastrophe losses accounted for 0.7 points and 0.5 points of the 2007 and 2006 loss and loss adjustment expense ratios. Excluding catastrophe losses and prior year reserve development, the 2007 loss and loss adjustment expense ratio improved by 0.5 points compared with the comparable 2006 ratio, reflecting continuing improvement in current accident year results in several lines of business. The underwriting expense ratio of 30.8% in 2007 was 0.2 points higher than the comparable 2006 underwriting expense ratio of 30.6%. The implementation of the new fixed agent compensation program described above provided a benefit of 0.8 points to the expense ratios in 2007, which was more than offset by the increases in expenses discussed above.

Table of Contents

RESULTS OF OPERATIONS BY SEGMENT

Business Insurance

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

(for the year ended December 31, in millions)	2008	2007	2006
Revenues:			
Earned premiums	**$ 11,180**	$ 11,283	$ 10,876
Net investment income	**1,917**	2,708	2,538
Fee income	**390**	508	591
Other revenues	**30**	24	44
Total revenues	**$ 13,517**	$ 14,523	$ 14,049
Total claims and expenses	**$ 10,506**	$ 10,444	$ 10,509
Operating income	**$ 2,338**	$ 3,015	$ 2,622
Loss and loss adjustment expense ratio	**57.7%**	57.1%	60.3%
Underwriting expense ratio	**32.5**	30.7	30.6
GAAP combined ratio	**90.2%**	87.8%	90.9%

Overview

Operating income of $2.34 billion in 2008 was $677 million, or 22%, lower than operating income of $3.02 billion in 2007, primarily due to a significant decline in net investment income and an increase in the cost of catastrophes. Also contributing to this reduction were a decline in fee income, the impact of competitive market conditions on pricing, the impact of loss cost trends, and a small increase in the number of large property losses. A significant increase in net favorable prior year reserve development in 2008 partially offset these factors. The cost of catastrophes in 2008 totaled $706 million, compared with $4 million in 2007. Net favorable prior year reserve development totaled $1.12 billion and $301 million in 2008 and 2007, respectively. Operating income in 2008 included an $89 million tax benefit related to the sale of Unionamerica, which comprised the Company's United Kingdom-based runoff direct insurance and reinsurance businesses. Operating income in 2007 benefited by $81 million from the Company's implementation of the new fixed agent compensation program (described in more detail in the "Consolidated Overview" section herein) and the resolution of certain tax matters.

Operating income of $3.02 billion in 2007 was $393 million, or 15%, higher than operating income of $2.62 billion in 2006, primarily reflecting increases in net favorable prior year reserve development and net investment income, the continuation of favorable current accident year results and the resolution of certain tax matters. In addition, results in 2007 benefited from the change to the new fixed agent compensation program. These factors were partially offset by an increase in general and administrative expenses and a decline in fee income in 2007. Net favorable prior year reserve development in 2007 and 2006 totaled $301 million and $21 million, respectively. Catastrophe losses in 2007 totaled $4 million, compared with no catastrophe losses in 2006.

Earned Premiums

Earned premiums of $11.18 billion in 2008 decreased $103 million, or 1%, from 2007, reflecting the impact of competitive market conditions on pricing and new business. Earned premiums of $11.28 billion in 2007 increased 4% over 2006 earned premiums of $10.88 billion, reflecting the growth in net written premium volume in the majority of the markets comprising this segment, driven by strong business retention rates and increases in new business volume, partially offset by minor decreases in renewal price changes.

Table of Contents

Net Investment Income

Refer to the "Net Investment Income" section of "Consolidated Results of Operations" herein for a discussion of the change in the Company's net investment income in 2008 and 2007 as compared with the prior year.

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 $118 million and $83 million declines in fee income in 2008 and 2007, respectively, primarily resulted from lower serviced premium volume due to the depopulation of workers' compensation residual market pools, the impact of lower loss 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 2008 totaled $6.61 billion, an increase of $65 million, or 1%, over 2007, primarily 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 an increase in net favorable prior year reserve development. The cost of catastrophes included in claims and claim adjustment expenses in 2008 totaled $642 million, primarily resulting from Hurricanes Ike and Gustav as well as wind, rain and hail storms in several regions of the United States throughout the year. Catastrophe losses in 2007 were $4 million. Net favorable prior year reserve development in 2008 and 2007 totaled $1.12 billion and $301 million, respectively. Net favorable prior year development in 2008 was driven by better than expected loss results primarily concentrated in the general liability and commercial multi-peril product lines, an increase in anticipated ceded recoveries for older accident years in the general liability product line and better than anticipated loss development in the commercial property and commercial automobile product lines. The net favorable prior year reserve development in the general liability and commercial multi-peril lines was attributable to several factors, including improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The commercial property product line improvement occurred primarily in the 2007 accident year as a result of better than expected loss development 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 loss development 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 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 related to 2004 and prior accident years, and by $70 million and $85 million increases to asbestos and environmental reserves, respectively, which are discussed in more detail in the "Asbestos Claims and Litigation" and "Environmental Claims and Litigation" sections herein.

Net favorable prior year reserve development of $301 million in 2007 was primarily driven by better than expected loss development for recent accident years in the commercial multi-peril, general liability, commercial automobile and property product lines. The commercial multi-peril and general

Table of Contents

liability product lines experienced better than anticipated loss development that was attributable to several factors, including improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The commercial automobile product line experienced better than expected loss development due to more favorable legal and judicial environments, claim handling initiatives focused on the automobile line of insurance and improvements in auto safety technology. The property product line experienced fewer than expected late reported claims related to non-catastrophe weather events that occurred late in 2006, as well as better than expected frequency and severity due in part to changes in the marketplace, such as higher deductibles and lower policy limits. In addition, the property product line experienced better than expected large loss outcomes which were partially attributable to favorable litigation resolutions. Net total prior year reserve development in 2007 included a $185 million increase to environmental reserves. (Refer to the "Environmental Claims and Litigation" section herein for additional discussion.)

Claims and claim adjustment expenses in 2007 of $6.67 billion declined by $180 million, or 3%, from the 2006 total of $6.85 billion, primarily reflecting an increase in net favorable prior year reserve development and continued favorable current accident year results, partially offset by an increase in business volume. Net favorable prior year reserve development in 2006 totaled $21 million.

In 2006, net favorable prior year reserve development in the commercial multi-peril, general liability, property and commercial automobile lines of business was largely offset by increases totaling $275 million to asbestos and environmental reserves and reserve strengthening for assumed reinsurance business in runoff. The commercial multi-peril and liability lines of business experienced better than anticipated loss development in 2006 that was attributable to several factors, including improving legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The favorable prior year reserve development in 2006 in the property line of business primarily reflected less "demand surge" inflation than originally estimated for 2005 accident year non-catastrophe and catastrophe losses. "Demand surge" refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services. The commercial automobile line of business experienced better than expected loss development which was attributable to more favorable legal and judicial environments, claim handling initiatives focused on the automobile line of insurance and improvements in auto safety technology. The reserve strengthening in assumed reinsurance was primarily due to changes in projected loss development driven by an unanticipated change in the claim settlement patterns of the underlying casualty exposures.

The amortization of deferred acquisition costs totaled $1.82 billion in 2008, $76 million, or 4%, higher than the comparable total of $1.74 billion in 2007. The growth in amortization costs 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. The amortization of deferred acquisition costs in 2007 was 13% higher than the 2006 total of $1.55 billion. The increase reflected the growth in business volume, as well as a $108 million increase from the implementation of the new fixed agent compensation program (described in more detail in the "Consolidated Overview" section herein).

General and administrative expenses totaled $2.08 billion in 2008, an increase of $51 million, or 3%, over the comparable 2007 total of $2.03 billion. The increase in 2008 primarily reflected the impact of $62 million of hurricane-related assessments. General and administrative expenses in 2007 were 4% lower than the comparable total of $2.10 billion in 2006. The implementation of the new fixed agent compensation program in the first quarter of 2007 resulted in a reduction of $189 million in reported general and administrative expenses in 2007 compared to what would have been reported under the prior contingent commission program during those periods. That reduction was partially offset by an increase in expenses related to growth in business volume and continuing expenditures to support business growth and product development. The 2006 total included a provision for legal expenses related to investigations of various business practices by certain governmental agencies.

Table of Contents

GAAP Combined Ratio

The loss and loss adjustment expense ratio in 2008 of 57.7% was 0.6 points higher than the comparable 2007 ratio of 57.1%. The cost of catastrophes accounted for 5.7 points of the loss and loss adjustment expense ratio in 2008, compared with no impact from catastrophes in 2007. Net favorable prior year reserve development provided 10.0 point and 2.6 point benefits to the loss and loss adjustment expense ratio in 2008 and 2007, respectively. The 2008 loss and loss adjustment expense ratio adjusted for the cost of catastrophes and prior year reserve development was 2.3 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, as well as a small increase in the number of large property losses.

The loss and loss adjustment expense ratio of 57.1% in 2007 was 3.2 points lower than the comparable 2006 ratio of 60.3%. In 2007, net favorable prior year reserve development provided a 2.6 point benefit to the loss and loss adjustment expense ratio, whereas the 2006 loss and loss adjustment expense ratio included a 0.2 point benefit from net favorable prior year reserve development. Adjusting for the impact of prior year reserve development in both years, the loss and loss adjustment expense ratio in 2007 was 0.8 points better than the comparable 2006 ratio, reflecting favorable current accident year results in 2007.

The underwriting expense ratio of 32.5% in 2008 was 1.8 points higher than the comparable 2007 ratio of 30.7%. The 2008 expense ratio included a 0.6 point impact of the hurricane-related assessments, whereas the 2007 ratio included a 0.7 point benefit 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 2008 expense ratio was 0.5 points higher than the adjusted expense ratio for 2007, primarily reflecting continued investments to support business growth and product development, 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.

The underwriting expense ratio of 30.7% in 2007, which included a 0.7 point benefit resulting from the implementation of the new fixed agent compensation program, was 0.1 points higher than the 2006 ratio, reflecting the increases in general and administrative expenses described above, and the impact of a decline in fee income.

Written Premiums

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

	Gross Written Premiums		
(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Select Accounts	**$ 2,804**	$ 2,774	$ 2,733
Commercial Accounts	**2,729**	2,740	2,613
National Accounts	**1,577**	1,859	2,169
Industry-Focused Underwriting	**2,485**	2,380	2,279
Target Risk Underwriting	**2,029**	2,182	2,187
Specialized Distribution	**954**	1,033	1,036
Total Business Insurance Core	**12,578**	12,968	13,017
Business Insurance Other	**2**	49	30
Total Business Insurance	**$ 12,580**	$ 13,017	$ 13,047

Table of Contents

(for the year ended December 31, in millions)	Net Written Premiums 2008	2007	2006
Select Accounts	**$ 2,756**	$ 2,711	$ 2,663
Commercial Accounts	**2,524**	2,518	2,376
National Accounts	**996**	1,056	1,135
Industry-Focused Underwriting	**2,396**	2,301	2,196
Target Risk Underwriting	**1,593**	1,665	1,629
Specialized Distribution	**939**	1,015	1,022
Total Business Insurance Core	**11,204**	11,266	11,021
Business Insurance Other	**16**	52	25
Total Business Insurance	**$ 11,220**	$ 11,318	$ 11,046

In Business Insurance Core, gross and net written premiums in 2008 decreased by 3% and 1% from 2007, respectively. The difference in rates of decline between gross and net written premiums in 2008 was concentrated in National Accounts, where a significant portion of gross written premiums 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. Net written premium growth in the Industry-Focused Underwriting, Select Accounts and Commercial Accounts groups generally reflected higher business retention levels and new business volume in several business units within these groups. This was more than offset by premium declines in Specialized Distribution, Target Risk Underwriting and National Accounts.

In 2007, Business Insurance Core gross written premiums declined $49 million, or less than 1%, from the comparable 2006 total, whereas net written premiums increased $245 million, or 2%, compared with 2006. The difference in growth rates between gross and net written premiums in 2007 was also concentrated in National Accounts due to the same factor described above. All markets in Business Insurance Core operations, except National Accounts and Specialized Distribution, recorded net written premium growth in 2007, driven by higher new business volume throughout the majority of markets coupled with continued strong business retention rates, offset in some markets by minor decreases in renewal price changes. Net written premium growth in 2007 also benefited from a reduction in ceded premiums related to catastrophe reinsurance coverage.

Select Accounts. Net written premiums of $2.76 billion in 2008 increased 2% over 2007. Business retention rates in 2008 remained strong and were slightly higher than in 2007. Renewal price changes remained positive but declined from 2007. In the aggregate, new business volume in 2008 was virtually level with 2007. The Company experienced 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. However, new business volume for larger accounts in 2008 declined from 2007 primarily due to competitive market conditions.

Net written premiums of $2.71 billion in 2007 grew 2% over 2006. New business volume increased over 2006, due in part to the introduction of the Company's enhanced quote-to-issue agency platform and multivariate pricing program in 37 states. Enhanced marketing efforts and additional products sold to existing customers also contributed to new business growth in 2007. Business retention rates remained strong in 2007. Renewal price changes in this market remained positive in 2007 but were lower than in 2006, as price increases for coastal coverages were partially offset by declines in renewal price changes for non-coastal coverages, which continue to be impacted by competitive market conditions.

Commercial Accounts. Net written premiums of $2.52 billion in 2008 were virtually level with the 2007 total. Business retention rates in 2008 remained strong and were higher than in 2007. Renewal

Table of Contents

price changes were slightly negative in 2008, and were lower than in 2007. New business levels also declined when compared with 2007, reflecting competitive market conditions in this market.

Net written premiums of $2.52 billion in 2007 grew 6% over 2006, primarily driven by an increase in new business volume, coupled with continued strong business retention rates. The growth in new business volume reflected the impact of product introductions, additional products sold to existing customers and increased marketing efforts. Renewal price changes in this market declined from 2006 and were negative in 2007, primarily reflecting competitive market conditions.

National Accounts. Net written premiums of $1.00 billion in 2008 decreased 6% from 2007. The decline 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. Overall new business volume increased slightly over 2007. Business retention rates in 2008 remained strong and increased over 2007.

Net written premiums of $1.06 billion in 2007 declined 7% from 2006, primarily reflecting competitive market conditions that resulted in lower business volume.

Industry-Focused Underwriting. Net written premiums of $2.40 billion in 2008 increased 4% over 2007. All business units in this market recorded net written premium growth in 2008. Growth in Construction net written premiums in 2008 was driven by strong business retention levels coupled with continued strong new business volume. An increase in new business volume was the primary factor in the growth in net written premiums in the Oil & Gas business unit. In Agribusiness, net written premium growth was driven by increases in business retention rates and renewal price changes. In the Public Sector business unit, the increase in net written premiums was driven by higher new business volume coupled with continued strong business retention rates.

Net written premiums of $2.30 billion in 2007 increased 5% over 2006. The increase was driven by the Construction business unit, where favorable economic conditions contributed to higher new business volume; the Oil & Gas business unit, due to increased business retention rates and strong renewal price changes; and the Public Sector unit, due to an increase in retention rates. In addition, strong new business volume and business retention rates in the Agribusiness business unit contributed to premium growth in 2007. Net written premiums in the Technology business unit in 2007 were level with 2006.

Target Risk Underwriting. Net written premiums of $1.59 billion in 2008 decreased 4% from 2007. The decline was 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. In addition, the Global Accounts business unit experienced a reduction in net written premiums due to declines in business retention rates, renewal price changes and new business. Partially offsetting the declines in these business units was an increase in net written premiums in the Excess Casualty business unit, where renewal price changes remained negative but improved over 2007 and business retention levels increased.

Net written premiums of $1.67 billion in 2007 grew 2% over 2006, driven by increases in the Inland Marine and National Property business units. Strong growth in new business volume accounted for the increase in Inland Marine net written premiums, whereas National Property's premium growth was driven by continued strong business retention rates and a decline in premiums ceded for catastrophe reinsurance coverage, partially offset by a decrease in renewal price changes, which were negative. Growth in these two business units was partially offset by a decline in Excess Casualty net written premiums.

Specialized Distribution. Net written premiums of $939 million in 2008 decreased 7% from 2007. The premium decline reflected negative renewal price changes in both the Northland and National

Table of Contents

Programs business units. In the National Programs business unit, business retention rates increased over 2007, but new business levels declined compared with 2007. In the Northland business unit, business retention rates and new business levels remained strong, but were down slightly compared with 2007.

Net written premiums of $1.02 billion in 2007 declined less than 1% from 2006. The decline was primarily due to premium reductions in the National Programs business unit, driven by reductions in new business volume and business retention rates due to competitive market conditions. These reductions were largely offset by premium growth in the Northland business unit due to strong business retention rates and new business volume.

In Business Insurance Other, the runoff healthcare, reinsurance and international business produced minimal net written premiums in 2008, 2007 and 2006.

Financial, Professional & International Insurance

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

(for the year ended December 31, in millions)	2008	2007	2006
Revenues:			
Earned premiums	**$ 3,429**	$ 3,384	$ 3,321
Net investment income	**454**	494	429
Other revenues	**24**	29	26
Total revenues	**$ 3,907**	$ 3,907	$ 3,776
Total claims and expenses	**$ 3,004**	$ 2,981	$ 2,968
Operating income	**$ 649**	$ 675	$ 609
Loss and loss adjustment expense ratio	**51.2%**	50.8%	53.7%
Underwriting expense ratio	**36.0**	36.8	35.3
GAAP combined ratio	**87.2%**	87.6%	89.0%

Overview

Operating income of $649 million in 2008 decreased by $26 million, or 4%, from 2007. The decline in operating income was primarily driven by an increase in the number of large losses that exceeded expectations within International, an increase in the cost of catastrophes and a decline in net investment income, largely offset by a significant increase in net favorable prior year reserve development. The cost of catastrophes in 2008 was $84 million, compared with no catastrophe losses in 2007. Net favorable prior year reserve development totaled $274 and $93 million in 2008 and 2007, respectively.

Operating income of $675 million in 2007 was $66 million, or 11%, higher than operating income of $609 million in 2006, primarily driven by an increase in net favorable prior year reserve development, higher net investment income and favorable current accident year results. These factors were partially offset by an increase in general and administrative expenses and non-catastrophe losses incurred in the United Kingdom related to flooding. Net favorable prior year reserve development totaled $93 million in 2007, compared with $14 million in 2006.

In March 2007, the Company completed the sale of Afianzadora Insurgentes, which accounted for $25 million and $78 million of net written premiums for the years ended December 31, 2007 and 2006, respectively. The impact of this transaction was not material to the Company's results of operations or financial position.

Table of Contents

Earned Premiums

Earned premiums of $3.43 billion in 2008 increased $45 million, or 1%, over the 2007 total of $3.38 billion. Adjusting for the sale of Afianzadora Insurgentes in 2007, earned premium growth of 2% in 2008 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 premiums in 2007 were slightly higher than in 2006. Adjusting for the sale of Afianzadora Insurgentes in both years, earned premiums in 2007 grew 3% over 2006. Earned premium growth was concentrated in the International group, driven by the favorable impact of foreign currency rates of exchange and growth in business volume over the preceding twelve months. Earned premium growth in 2007 also benefited from adjustments to prior year premium estimates for the Company's operations at Lloyd's.

Net Investment Income

Refer to the "Net Investment Income" section of "Consolidated Results of Operations" herein for a discussion of the change in the Company's net investment income in 2008 and 2007 as compared with the prior year, as well as a discussion of the Company's net investment income allocation methodology.

Claims and Expenses

Claims and claim adjustment expenses of $1.77 billion in 2008 increased by $32 million, or 2%, over 2007. An increase in the cost of catastrophes and an increase in the number of large losses that exceeded expectations within International in 2008 were largely offset by a significant increase in net favorable prior year reserve development. The cost of catastrophes included in claims and claim adjustment expenses in 2008 totaled $73 million, compared with no catastrophe losses in 2007. Hurricanes Ike and Gustav accounted for the majority of catastrophe losses in 2008.

Net favorable prior year reserve development totaled $274 million in 2008, primarily driven by better than expected loss experience in the International group. The improvements in longer-tail lines of business were attributable to several factors, including enhanced risk control and underwriting strategies throughout the International group. 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 relating to 2007 flood losses. In the Bond & Financial Products group, better than expected loss experience for the contract surety business within the fidelity and surety product line, resulting from favorable settlements on large claims (primarily from accident years prior to 2005), resulted in net favorable prior year reserve development in 2008. In 2007, net favorable prior year reserve development totaled $93 million, primarily reflecting better than expected loss development in international property, employers' liability, professional indemnity and motor 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.

Claims and claim adjustment expenses totaled $1.74 billion in 2007, a decrease of 3% from 2006, primarily reflecting an increase in net favorable prior year reserve development and the impact of the sale of Afianzadora Insurgentes, partially offset by the increase in business volume, $37 million of non-catastrophe losses incurred in the United Kingdom in 2007 related to flooding and the impact of foreign currency rates of exchange. Net favorable prior year reserve development in 2006 totaled $14 million.

General and administrative expenses in 2008 totaled $581 million, $9 million lower than in 2007, primarily reflecting a decrease in commission expense. The Company's implementation of the new fixed

Table of Contents

agent compensation program in the first quarter of 2007 did not have a material impact on the Financial, Professional & International Insurance segment. General and administrative expenses totaled $590 million in 2007, an increase of 10% over the 2006 total of $536 million. The increase primarily reflected the segment's continued expenditures to support business growth and the impact of foreign currency exchange rates.

GAAP Combined Ratio

The loss and loss adjustment expense ratio of 51.2% in 2008 was 0.4 points higher than the 2007 ratio of 50.8%. The 2008 ratio included an 8.0 point benefit from net favorable prior year reserve development and a 2.3 point impact from the cost of catastrophes, whereas the 2007 ratio included a 2.7 point benefit from net favorable prior year reserve development and no impact from catastrophe losses. The 2008 loss and loss adjustment expense ratio adjusted for catastrophe losses and prior year reserve development was 3.4 points higher than the 2007 ratio on the same basis, primarily reflecting an increase in the number of large losses that exceeded expectations within International. The underwriting expense ratio of 36.0% in 2008 was 0.8 points lower than in 2007. The 2008 expense ratio included a 0.2 point impact of hurricane-related assessments. Adjusting for these assessments, the 2008 expense ratio was 1.0 points lower than the expense ratio in 2007, reflecting reduced acquisition costs.

The loss and loss adjustment expense ratio of 50.8% in 2007 was 2.9 points lower than the 2006 ratio of 53.7%. The 2007 ratio included a 2.7 point benefit from net favorable prior year reserve development, compared with a 0.4 point benefit in 2006. Excluding this factor in each year, the 2007 ratio was 0.6 points lower than the 2006 ratio. The underwriting expense ratio of 36.8% in 2007 was 1.5 points higher than the comparable 2006 expense ratio, driven by the increase in expenses supporting business growth.

Written Premiums

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

	Gross Written Premiums		
(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Bond & Financial Products	**$ 2,507**	$ 2,614	$ 2,657
International	**1,459**	1,423	1,324
Total Financial, Professional & International Insurance	**$ 3,966**	$ 4,037	$ 3,981

	Net Written Premiums		
(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Bond & Financial Products	**$ 2,228**	$ 2,228	$ 2,255
International	**1,240**	1,237	1,138
Total Financial, Professional & International Insurance	**$ 3,468**	$ 3,465	$ 3,393

Afianzadora Insurgentes generated gross and net written premiums of $30 million and $25 million, respectively, in 2007. Adjusting for the sale of that operation in 2007, gross written premiums in 2008 declined 1% from 2007, whereas net written premiums increased 1% over 2007. The difference in 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.

Table of Contents

In the Bond & Financial Products group, net written premiums in 2008 increased 1% over 2007 (adjusted for the sale of Afianzadora Insurgentes), as the impact of the higher level of business retained in 2008 was largely offset by a decline in premium volume due to competitive market conditions and the economic downturn. In the Bond & Financial Products group (excluding the surety line of business, for which the following are not relevant measures), business retention rates in 2008 remained strong and increased slightly over 2007. Renewal price changes in 2008 were slightly negative, compared to an increase in the prior year, and new business levels were consistent with 2007.

Net written premiums in the International group in 2008 were flat with 2007. For the International group in 2008, business retention rates declined from 2007 due to the intentional non-renewal of certain property business in Canada and more competitive market conditions at Lloyd's. Renewal price changes in 2008 were flat, compared to a decrease in 2007, and new business volume increased.

Gross and net written premiums in 2007 increased 1% and 2%, respectively, over 2006. Adjusting for the sale of Afianzadora Insurgentes, gross and net written premiums increased 3% and 4%, respectively, over 2006. Net written premiums in the Bond & Financial Products group in 2007 increased 1% over 2006 (adjusted for the sale of Afianzadora Insurgentes), primarily due to increased construction surety business volume resulting from strong economic conditions in the public works sector of the construction industry. For Bond and Financial Products (excluding the surety line of business), business retention rates in 2007 increased over 2006. Renewal price changes in 2007 were positive but down from 2006, and new business levels declined due in part to competitive market conditions. In the International group, net written premiums in 2007 increased $99 million, or 9%, over 2006, primarily reflecting the favorable impact of foreign currency exchange rates and strong business volume at Lloyd's and in Canada. Net written premium volume in the International group in 2007 also benefited from adjustments to prior year premium estimates in the Lloyd's operation. In the International group in 2007, business retention rates remained strong, new business volume increased over 2006, and renewal price changes declined from 2006.

Personal Insurance

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

(for the year ended December 31, in millions)	2008	2007	2006
Revenues:			
Earned premiums	**$ 6,970**	$ 6,803	$ 6,563
Net investment income	**421**	559	548
Other revenues	**75**	90	94
Total revenues	**$ 7,466**	$ 7,452	$ 7,205
Total claims and expenses	**$ 6,855**	$ 5,996	$ 5,555
Operating income	**$ 465**	$ 1,019	$ 1,132
Loss and loss adjustment expense ratio	**66.2%**	58.6%	54.8%
Underwriting expense ratio	**30.8**	28.2	28.3
GAAP combined ratio	**97.0%**	86.8%	83.1%

Overview

Operating income of $465 million in 2008 was $554 million, or 54%, lower than operating income in 2007, primarily reflecting an increase in the cost of catastrophes. Also contributing to the decline in 2008 were the impact of a reduction in net investment income, an increase in non-catastrophe related weather losses and loss cost trends. The cost of catastrophes in 2008 totaled $618 million, compared

Table of Contents

with $163 million in 2007. Net favorable prior year reserve development in 2008 and 2007 totaled $143 million and $152 million, respectively. In addition, results in 2007 benefited by $71 million from the Company's implementation of a new fixed agent compensation program, which is described in more detail in the "Consolidated Overview" section herein.

Operating income of $1.02 billion in 2007 was $113 million, or 10%, lower than operating income of $1.13 billion in 2006, primarily reflecting a decline in net favorable prior year reserve development and an increase in catastrophe losses, partially offset by growth in business volume and net investment income and the $71 million benefit from the new fixed agent compensation program. Net favorable prior year reserve development in 2007 and 2006 totaled $152 million and $359 million, respectively. Catastrophe losses in 2007 totaled $163 million, compared with catastrophe losses of $103 million in 2006.

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. (collectively, Mendota). These subsidiaries primarily offered nonstandard automobile coverage and accounted for $49 million and $187 million of net written premiums in the years ended December 31, 2007 and 2006, respectively. The impact of this transaction was not material to the Company's results of operations or financial position.

Earned Premiums

Earned premiums of $6.97 billion in 2008 increased $167 million, or 2%, over earned premiums of $6.80 billion in 2007. Adjusting for the sale of Mendota in 2007, earned premiums in 2008 increased 3% over 2007. The increase reflected continued strong business retention rates and new business volume, coupled with continued renewal price increases. Earned premiums of $6.80 billion in 2007 grew 4% over 2006, primarily reflecting continued strong business retention rates, increases in renewal price changes, and growth from new business volume, partially offset by the impact of the sale of Mendota in early April 2007. Adjusting for the impact of Mendota in both years, earned premiums in 2007 increased 6% over 2006.

Net Investment Income

Refer to the "Net Investment Income" section of "Consolidated Results of Operations" herein for a discussion of the change in the Company's net investment income in 2008 and 2007 as compared with the prior year.

Claims and Expenses

Claims and claim adjustment expenses in 2008 totaled $4.62 billion, an increase of $629 million, or 16%, over 2007, primarily reflecting a significant increase in the cost of catastrophes, non-catastrophe weather related losses in the Homeowners and Other product line, the impact of loss cost trends and increased business volume. The cost of catastrophes included in claim and claim adjustment expenses in 2008 totaled $541 million, compared with $163 million in 2007. Catastrophe losses in 2008 primarily resulted from Hurricanes Ike and Gustav, 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 2008 and 2007 totaled $143 million and $152 million, respectively. The 2008 net favorable prior year reserve development was primarily driven by favorable loss experience related to Hurricane Katrina, and better than expected loss experience from recent accident years for the Homeowners and Other product line. 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 experienced improvement in 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. Net favorable prior year reserve development in 2007 of $152 million was driven by better than expected automobile loss experience due

Table of Contents

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 2007 was attributable to a decrease in the number of claims due to changes in the marketplace, including higher deductibles and fewer small-dollar claims.

Claims and claim adjustment expenses in 2007 totaled $3.99 billion, an increase of $390 million, or 11%, over 2006, primarily reflecting a decline in net favorable prior year reserve development, an increase in catastrophe losses and higher business volume, partially offset by the impact of the sale of Mendota.

Net favorable prior year reserve development of $359 million in 2006 was driven by better than expected loss experience in the auto bodily injury and non-catastrophe related Homeowners and Other lines of business, and a reduction in loss estimates for the 2005 hurricanes. In the Automobile line of business, the improvement in 2006 was partially driven by better than expected results from changes in claim handling practices. These changes included practices which have allowed case reserves to be established more accurately earlier in the claim settlement process, thereby changing historical loss development patterns. In addition, industry and Company initiatives to fight fraud in several states led to a decrease in the total number of claims and a change in historical loss development patterns. In the Homeowners and Other line of business, favorable prior year reserve development in 2006 was partially driven by a significant decrease in the number of claims, attributable to changes in the marketplace, including higher deductibles and fewer small-dollar claims. These changes also resulted in a change in historical loss development patterns. In addition, for 2006, non-catastrophe related Homeowners and Other loss experience was favorable due to continued evidence of a less than expected impact from "demand surge," which refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services. Approximately $100 million of net favorable prior year reserve development in 2006 resulted from a reduction in loss estimates for catastrophes incurred in 2005, primarily due to lower than expected additional living expense losses related to Hurricane Katrina.

Catastrophe losses in 2007 totaled $163 million, $60 million higher than the 2006 total of $103 million. Catastrophe losses in 2007 were primarily the result of wildfires in California and several storms throughout the United States, whereas the 2006 total was driven by several wind, rain, hail and snow storms throughout the year in the United States.

The amortization of deferred acquisition costs totaled $1.41 billion in 2008, compared with $1.31 billion in 2007. The growth in amortization costs in 2008 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.

The amortization of deferred acquisition costs totaled $1.31 billion in 2007, $156 million, or 14%, higher than the comparable 2006 total of $1.15 billion. The increase included $94 million from the implementation of the new fixed agent compensation program in 2007 described in more detail in the "Consolidated Overview" section herein, as well as growth in business volume, partially offset by the impact of the sale of Mendota

General and administrative expenses totaled $829 million in 2008, an increase of $130 million, or 19% over the 2007 total of $699 million. The increase in 2008 included the impact of $77 million of hurricane-related assessments. The remaining increase reflected growth in business volume and continued investments to support business growth and product development.

General and administrative expenses totaled $699 million in 2007, a decrease of $105 million, or 13%, from the 2006 total of $804 million. The decrease in expenses in 2007 primarily reflected a decline in commission expenses resulting from the implementation of the new fixed agent compensation program, as well as the impact of the sale of Mendota, which were partially offset by expenses related

Table of Contents

to increased business volume, and continued investments to support business growth and product development. The implementation of the new fixed agent compensation program in 2007 resulted in a $165 million reduction in reported general and administrative expenses, compared to what would have been reported under the prior contingent commission program.

GAAP Combined Ratio

The loss and loss adjustment expense ratio of 66.2% in 2008 was 7.6 points higher than the comparable 2007 ratio of 58.6%. The 2008 ratio included a 7.8 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 2.4 point impact of the cost of catastrophes and a 2.2 point benefit from net favorable prior year reserve development. The 2008 loss and loss adjustment expense ratio adjusted for catastrophe losses and prior year reserve development was 2.1 points higher than the 2007 ratio on the same basis, primarily reflecting the impact of an increase in non-catastrophe weather related losses in the Homeowners and Other line of business and loss cost trends.

The loss and loss adjustment expense ratio of 58.6% in 2007 was 3.8 points higher than the comparable 2006 ratio of 54.8%, primarily reflecting the decline in net favorable prior year reserve development. The ratio in 2007 included a 2.2 point benefit from net favorable prior year reserve development, compared with a 5.5 point benefit in 2006. Catastrophe losses accounted for 2.4 points and 1.6 points, respectively, of the loss and loss adjustment expense ratios in 2007 and 2006. Excluding the impact of prior year development and catastrophes in both years, the adjusted 2007 loss and loss adjustment expense ratio was 0.3 points lower than the adjusted 2006 ratio.

The underwriting expense ratio of 30.8% in 2008 was 2.6 points higher than the 2007 ratio of 28.2%. The 2008 ratio included a 1.1 point impact from hurricane-related assessments, whereas the 2007 ratio included a 1.0 point benefit from the implementation of the new fixed agent compensation program described in the "Consolidated Overview" section herein. Adjusting for these factors, the 2008 expense ratio was 0.5 points higher than the adjusted expense ratio for 2007, primarily reflecting continued investments to support business growth and product development.

The underwriting expense ratio in 2007, excluding the 1.0 point benefit from the implementation of the new fixed agent compensation program, was 0.9 points higher than the 2006 expense ratio of 28.3%, reflecting the impact of continued investments to support business growth and product development.

Written Premiums

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

	Gross Written Premiums		
(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Automobile	**$ 3,689**	$ 3,673	$ 3,731
Homeowners and Other	**3,602**	3,471	3,280
Total Personal Insurance	**$ 7,291**	$ 7,144	$ 7,011

	Net Written Premiums		
(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Automobile	**$ 3,660**	$ 3,628	$ 3,692
Homeowners and Other	**3,335**	3,207	3,019
Total Personal Insurance	**$ 6,995**	$ 6,835	$ 6,711

Table of Contents

Gross and net written premiums in 2008 both increased 2% over the comparable 2007 totals. Mendota accounted for $49 million of both gross and net written premiums in 2007. Adjusting for the sale of Mendota in 2007, gross and net written premiums in 2008 both increased 3% over the 2007 totals.

In the Automobile line of business, net written premiums increased 2% over 2007, adjusting for the sale of Mendota. Business retention rates in 2008 remained strong and were consistent with 2007. Renewal price changes in 2008 remained positive and consistent with 2007. New business levels in 2008 increased over 2007. In the Homeowners and Other line of business, net written premiums in 2008 grew 4% over 2007. Business retention rates in 2008 remained strong and were consistent with 2007. Renewal price changes in 2008 remained positive but declined from 2007. New business levels also remained strong and increased slightly over 2007.

Gross and net written premiums in 2007 both increased 2% over the respective totals in 2006. Adjusting for the sale of Mendota in both years, net written premiums in the Personal Insurance segment in 2007 increased 4% over 2006, driven by continued strong retention rates and increases in renewal price changes, partially offset by a decline in new business volume.

In the Automobile line of business, net written premiums in 2007 declined 2%, from 2006. Adjusting for the impact of the sale of Mendota, net written premiums in the Automobile line of business in 2007 increased 2% over 2006. That growth primarily reflected renewal price change increases coupled with continued strong retention rates, partially offset by a decline in new business volume due to competitive market conditions.

In the Homeowners and Other line of business, net written premiums in 2007 grew 6% over 2006, primarily reflecting renewal price change increases, particularly for coastal coverages, coupled with continued strong retention rates. New business volume in this line of business in 2007 declined from 2006, primarily driven by strategies to reduce exposure to losses on the Atlantic and Gulf coasts of the United States. Adjusting for the sale of Mendota for both years, net written premiums in the Homeowners and Other line of business in 2007 increased 7% over 2006.

The Personal Insurance segment had approximately 7.4 million and 7.2 million policies in force at December 31, 2008 and 2007, respectively. In the Automobile line of business, policies in force at December 31, 2008 increased 2% over the same date in 2007. Policies in force in the Homeowners and Other line of business at December 31, 2008 grew by 3% over the same date in 2007.

Interest Expense and Other

(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Net loss	**$ (257)**	$ (209)	$ (163)

The $48 million increase in net loss for Interest Expense and Other in 2008 compared with 2007 was primarily driven by a $52 million benefit in 2007 resulting from the favorable resolution of various prior year tax matters. The net loss in 2008 included after-tax interest expense of $239 million, compared with $224 million in 2007. The net loss in 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.

The $46 million increase in net loss for Interest Expense and Other in 2007 compared with 2006 was driven by the impact of debt redemptions in each year. The net loss in 2007 included the after-tax loss of $25 million related to the Company's redemption of its 4.50% convertible junior subordinated notes. Conversely, the net loss in 2006 was reduced by a $27 million after-tax gain realized on the redemption of the Company's $593 million, 7.6% subordinated debentures. After-tax interest expense in

2007 totaled $224 million, compared with $207 million in 2006. The net losses in this category for 2007 and 2006 were reduced by 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 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, Inc. (ACandS), formerly a national distributor and installer of products containing asbestos. Pursuant to that agreement, the Company placed $449 million into escrow. The settlement was subject to a number of contingencies, all

Table of Contents

of which 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 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.

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 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 seeking review of the Second Circuit's decision and on December 12, 2008, the Petitions were granted. Unless the Supreme Court 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. (For a description of these matters, see "Part I Item 3, Legal Proceedings").

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 observed over the past three reviews have been generally consistent. The trends include:

- more stable payment trends for a large proportion of policyholders;
- a decrease in the number of new claims received;

Table of Contents

- a decrease in the number of large asbestos exposures confronting the Company due to additional settlement activity;
- fewer and less volatile 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 2007. 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 certain policyholders an estimate of the gross ultimate exposure for indemnity and related claim adjustment expense is determined, and for those policyholders 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.

Net asbestos losses and expenses paid in 2008 were $658 million, compared with $317 million in 2007. The increase in net paid losses was the result of the ACandS payment in the third quarter of 2008. Excluding the ACandS settlement, payments in 2008 were $293 million. Approximately 59% and 20% of total net paid losses in 2008 and 2007, respectively, related to policyholders with whom the Company had entered into settlement agreements limiting the Company's liability.

The Company categorizes its asbestos reserves as follows:

	Number of Policyholders		Total Net Paid		Net Asbestos Reserves	
(at and for the year ended December 31, $ in millions)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Policyholders with settlement agreements	**23**	22	**$ 389**	$ 62	**$ 749**	$ 1,152
Home office and field office	**1,651**	1,659	**217**	211	**1,983**	2,116
Assumed reinsurance and other			**41**	35	**182**	224
International			**11**	9		242
Total	**1,674**	1,681	**$ 658**	$ 317	**$ 2,914**	$ 3,734

The "policyholders with settlement agreements" category includes structured settlements, coverage in place arrangements and, with respect to TPC, Wellington accounts. Reserves are based on the expected payout for each policyholder under the applicable agreement. Structured settlements are arrangements under which policyholders and/or plaintiffs agree to fixed financial amounts to be paid at scheduled times. Included in this category are TPC's settlements of the Statutory and Hawaii Actions

Table of Contents

and the Common Law Claims (collectively the Direct Action Settlement). As stated above unless the Second Circuit's decision vacating the approval of the settlement is reversed and the bankruptcy court's order approving the settlement is reinstated and becomes final, the Direct Action Settlement will be voided and TPC will have no obligation to pay the amounts under the Direct Action Settlement (other than certain administrative expenses). In that event, the reserves assigned to the settlement will be returned to TPC's unallocated asbestos reserve. (For a description of these matters, see "Item 3 Legal Proceedings"). Coverage in place arrangements represent agreements with major policyholders on specified amounts of coverage to be provided. Payment obligations may be subject to annual maximums and are only made when valid claims are presented. Wellington accounts refer to the 35 defendants that are parties to a 1985 agreement settling certain disputes concerning insurance coverage for their asbestos claims. Many of the aspects of the Wellington agreement are similar to those of coverage in place arrangements in which the parties have agreed on specific amounts of coverage and the terms under which the coverage can be accessed.

The "home office and field office" category relates to all other policyholders and also includes unallocated IBNR reserves. Policyholders are identified for home office review based upon, among other factors: a combination of past payments and current case reserves in excess of a specified threshold (currently $100,000), perceived level of exposure, number of reported claims, products/completed operations and potential "non-product" exposures, size of policyholder and geographic distribution of products or services sold by the policyholder. In addition to IBNR amounts contained in the reserves for home office and field office policyholders and the costs of litigating asbestos coverage matters, the Company has established a reserve for further adverse development related to existing policyholders, new claims from policyholders reporting claims for the first time and policyholders for which there is, or may be, litigation and direct actions against the Company.

On January 29, 2009, the Company and PPG Industries, Inc ("PPG"), along with approximately 30 other insurers of PPG, agreed in principle on a modified settlement agreement to settle asbestos-related coverage litigation under insurance policies issued to PPG. The tentative settlement agreement has been incorporated into the Modified Third Amended Plan of Reorganization ("Amended Plan") proposed as part of the Pittsburgh Corning Corp. ("PCC", which is 50% owned by PPG) bankruptcy proceeding. Pursuant to the proposed Amended Plan, which was filed on January 30, 2009, PCC, along with enumerated other companies (including PPG as well as the Company as a participating insurer), are to receive protections afforded by Section 524(g) of the Bankruptcy Code from certain asbestos-related bodily injury claims. The Company had entered into a prior agreement in principle with PPG in 2002 which was contingent upon final court approval of the Second Amended Plan of Reorganization for PCC, but in December 2006, the United States Bankruptcy Court declined to confirm that Plan of Reorganization. As a result of the December 2006 ruling, the Company removed the reserves associated with the prior agreement from the structured settlement category of the asbestos reserve and made a corresponding increase in the unallocated asbestos IBNR reserve. Under the current agreement in principle, the Company has the option to make a series of payments over the next 20 years totaling approximately $620 million to the Trust to be created under the Amended Plan, or it may elect to make a one-time discounted payment, which, as of June 30, 2009, would total approximately $430 million (approximately $400 million after reinsurance). The current agreement in principle with PPG is subject to numerous contingencies, including final court approval of the Amended Plan, and the Company has no obligation to make the settlement payment until all contingencies are satisfied. The Company's obligations under this agreement in principle continue to be included in the unallocated asbestos IBNR reserve.

Assumed reinsurance exposure primarily consists of reinsurance of excess coverage, including various pool participations. Prior to the sale of Unionamerica in December 2008, International was exposed to U.S. asbestos liabilities through participations in excess insurance policies, quota share and excess of loss reinsurance policies, and retrocession policies, underwritten in the London insurance

Table of Contents

market. Details of exposures under the reinsurance and retrocession policies were identified only when the Company was advised by the cedant.

In December 2008, the Company completed the sale of Unionamerica, which comprised its United Kingdom-based runoff insurance and reinsurance businesses. Included in the claim and claim adjustment expense reserves transferred to the purchaser were gross and net asbestos reserves of $330 million and $232 million, respectively.

The Company recorded a $70 million pretax increase to asbestos reserves in 2008. The Company recorded no asbestos reserve additions in 2007, and recorded a pretax asbestos reserve addition of $155 million in 2006. The 2008 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. Approximately half of the $155 million 2006 pretax reserve adjustment was due to an increase in the projected defense costs for ten policyholders. The majority of the remainder of the reserve adjustment was primarily due to continued litigation activity against smaller, peripheral defendants. Net asbestos reserves totaled $2.91 billion at December 31, 2008, compared with $3.73 billion at December 31, 2007.

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

(at and for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Beginning reserves:			
Direct	**$ 4,353**	$ 4,777	$ 5,103
Ceded	**(619)**	(726)	(739)
Net	**3,734**	4,051	4,364
Incurred losses and loss expenses:			
Direct	**70**	(1)	196
Ceded		1	(41)
Net	**70**		155
Accretion of discount:			
Direct			1
Ceded			
Net			1
Losses paid:			
Direct	**794**	423	523
Ceded	**(136)**	(106)	(54)
Net	**658**	317	469
Sale of subsidiary:			
Direct	**330**		
Ceded	**(98)**		
Net	**232**		
Ending reserves:			
Direct	**3,299**	4,353	4,777
Ceded	**(385)**	(619)	(726)
Net	**$ 2,914**	$ 3,734	$ 4,051

See " Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves."

Table of Contents

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.

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

Table of Contents

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. The Company continues to experience a decline in both the number of new policyholders tendering claims for the first time and the number of pending lawsuits between the Company and its policyholders pertaining to coverage for environmental claims; however, the Company has experienced a moderation in the rate of that decline in recent years. The Company increased its environmental reserve by $185 million in 2007 primarily in response to that moderation. In 2006, the Company increased environmental reserves by $120 million primarily as a result of higher than expected defense and settlement costs driven in part by adverse judicial developments in certain states regarding the availability of coverage for environmental claims.

In December 2008, the Company completed the sale of Unionamerica, which comprised its United Kingdom-based runoff insurance and reinsurance businesses. Included in the claim and claim adjustment expense reserves transferred to the purchaser were gross and net environmental reserves of $40 million and $33 million, respectively.

Net paid losses in 2008 and 2007 were $128 million and $113 million, respectively. At December 31, 2008, approximately 92% of the net environmental reserve (approximately $381 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 8% of the net environmental reserve (approximately $33 million), consists of case reserves.

Table of Contents

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

(at and for the year ended December 31, in millions)	2008	2007	2006
Beginning reserves:			
Direct	**$ 478**	$ 413	$ 494
Ceded	**12**	5	(69)
Net	**490**	418	425
Incurred losses and loss expenses:			
Direct	**85**	182	108
Ceded		3	12
Net	**85**	185	120
Losses paid:			
Direct	**123**	117	189
Ceded	**5**	(4)	(62)
Net	**128**	113	127
Sale of subsidiary:			
Direct	**40**		
Ceded	**(7)**		
Net	**33**		
Ending reserves:			
Direct	**400**	478	413
Ceded	**14**	12	5
Net	**$ 414**	$ 490	$ 418

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 December 31, 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 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, future developments pertaining to the Company's ability to recover reinsurance for asbestos and environmental claims and the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers. In addition, uncertainties arise from the insolvency or bankruptcy of policyholders and other defendants, although in recent years 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

Table of Contents

near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos and environmental reserves, the Company continues to study the implications of these and other developments. (Also, see "Part I Item 3, 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.

INVESTMENT PORTFOLIO

The Company's invested assets at December 31, 2008 totaled $70.74 billion, of which 94% was invested in fixed maturity and short-term investments, 1% in equity securities, 1% in real estate and 4% in other investments. Because the primary purpose of the investment portfolio is to fund future claims payments, the Company employs a conservative investment philosophy. A significant majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid intermediate-term taxable U.S. government, tax-exempt U.S. municipal bonds, and taxable corporate and U.S. agency mortgage-backed bonds.

The Company's fixed maturity portfolio at December 31, 2008 totaled $61.28 billion. The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company's insurance and debt obligations. The weighted average credit quality of the Company's fixed maturity portfolio, both including and excluding U.S. Treasury securities, was "Aa1" at December 31, 2008 and 2007. Below investment grade securities represented 2.0% and 2.5% of the total fixed maturity investment portfolio at December 31, 2008 and 2007, respectively. The average effective duration of the fixed maturity portfolio, including short-term investments, was 4.2 and 4.0 (4.6 and 4.3 excluding short-term investments), at December 31, 2008 and 2007, respectively.

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

(at December 31, 2008, in millions)	Carrying Value	Percent of Total Carrying Value
Quality Rating:		
Aaa	$ 30,878	50.4%
Aa	20,282	33.1
A	6,030	9.8
Baa	2,883	4.7
Total investment grade	60,073	98.0
Below investment grade	1,202	2.0
Total fixed maturity investments	$ 61,275	100.0%

Included in the Company's fixed maturity portfolio at December 31, 2008 were $1.52 billion of debt securities issued by foreign governments and $12.79 billion of corporate fixed maturities and

Table of Contents

redeemable preferred stock. These credit exposures are diversified across a number of countries and industries. The following table shows the industry sectors for those exposures.

(at December 31, 2008, in millions)	Carrying Value	Average Credit Rating
Credit Sector(1)		
Government:		
Debt securities issued by foreign governments	**$ 1,519**	**Aaa**
Corporate:		
Financial		
Bank	**1,821**	**Aa3**
Insurance	**497**	**Aa3**
Brokerage and asset management	**282**	**A2**
Finance/leasing	**189**	**A3**
Total financial	**2,789**	
Industrial	**4,972**	**Baa1**
Public utility	**1,956**	**Baa1**
Sovereign corporate securities(2)	**1,341**	**Aaa**
Commercial mortgage-backed and project loans(3)	**766**	**Aaa**
Canadian municipal securities	**571**	**Aa1**
Asset-backed and other	**399**	**A1**
Total corporate	**12,794**	
Total credit exposure	**$ 14,313**	**A1**

(1) Credit sectors include debt securities issued by foreign governments, corporate bonds and redeemable preferred stocks.

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

(3) Included in Commercial mortgage-backed securities and project loans are $221 million of securities guaranteed by the U.S. government and $37 million by government sponsored enterprises.

The Company's fixed maturity investment portfolio at December 31, 2008 included $39.06 billion of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). The municipal bond portfolio is diversified across the United States, the District of Columbia and Puerto Rico, and includes general obligation and revenue bonds issued by states, cities, counties, school districts, and similar issuers. Included in the municipal bond portfolio are $5.45 billion of advance refunded or escrowed-to-maturity bonds. Advance refunded and escrowed-to-maturity bonds are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest. Such escrow accounts are verified as to their sufficiency by an external auditor and almost exclusively involve U.S. Treasury securities. The following

Table of Contents

table shows the geographic distribution of the remaining $33.61 billion of municipal bonds which are not advance refunded or escrowed-to-maturity.

State (in millions)	State General Obligation	Local General Obligation	Revenue	Total Market Value	Average Quality Rating(1)
Texas	$ 379	$ 1,988	$ 1,362	$ 3,729	Aaa/Aa1
California	138	1,472	382	1,992	Aa1
Illinois	347	995	605	1,947	Aa1
Virginia	184	713	712	1,609	Aaa/Aa1
Florida	525	79	944	1,548	Aa1
Washington	420	699	383	1,502	Aa1
Maryland	499	576	247	1,322	Aaa/Aa1
Ohio	467	330	458	1,255	Aa1
Minnesota	427	606	211	1,244	Aaa/Aa1
Georgia	476	387	345	1,208	Aaa/Aa1
New York	49	191	930	1,170	Aa1
Arizona		454	627	1,081	Aa1
North Carolina	522	436	118	1,076	Aaa
Michigan	157	337	530	1,024	Aa1
All Others(2)	3,255	3,509	5,135	11,899	Aa1
Total	$ 7,845	$ 12,772	$ 12,989	$ 33,606	Aa1

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

(2) No other single state accounted for 3.0% or more of the total non-advance-refunded or escrowed-to-maturity municipal bonds.

The Company bases its investment decision on the credit characteristics of the municipal security; however, within its municipal bond portfolio are a number of securities that were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default. The downgrade during 2008 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 99% were rated at A3 or above, and approximately 81% 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 December 31, 2008. The average credit rating of the entire municipal bond portfolio was "Aa1" at December 31, 2008 with and without the third-party insurance.

At December 31, 2008 and 2007, the Company held commercial mortgage-backed securities (CMBS, including FHA project loans) of $766 million and $935 million, respectively. At December 31, 2008, approximately $258 million of these securities, or the loans backing such securities, contain guarantees by the United States Government or a government-sponsored enterprise and $20 million were comprised of Canadian non-guaranteed securities. The average credit rating of the $508 million of non-guaranteed securities at December 31, 2008 was "Aaa," and 93% 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 residential 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 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 December 31, 2008 and 2007, the Company held CMOs classified as available for sale with a fair value of $2.84 billion and $3.59 billion, respectively (in addition to the CMBS securities of $766 million and $935 million, respectively, described above). Approximately 35% and 31% of the Company's CMO holdings are guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC at December 31, 2008 and 2007, respectively. In addition, the Company held $3.22 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 December 31, 2008 and 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 December 31, 2008 and 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 $206 million and $286 million, respectively (comprising approximately 0.3% and 0.4% of the Company's total fixed maturity investments, respectively). 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 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 "Aa2" and "Aaa" at December 31, 2008 and 2007, respectively. Approximately $81 million of the Company's asset-backed securities collateralized by sub-prime and alternative documentation mortgages were downgraded in 2008.

The Company's real estate investments include warehouses and office buildings and other commercial land and properties that are directly owned. The Company's other investments are primarily comprised of private equity limited partnerships, hedge funds, real estate partnerships, joint ventures, mortgage loans, venture capital (through direct ownership and limited partnerships) and trading securities, which are subject to more volatility than the Company's fixed maturity investments. While these asset classes have historically provided a higher return than fixed maturities, in 2008 the returns were significantly lower than in prior periods and, in the aggregate, produced negative investment income, reflecting market conditions. At December 31, 2008 and 2007, the carrying value of the Company's other investments was $3.04 billion and $3.37 billion, respectively.

Table of Contents

The Company has engaged 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 third quarter of 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 December 31, 2008, the Company had $8 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 for the years ended December 31, 2008, 2007 and 2006.

The net unrealized investment gains (losses) that were included as a separate component of accumulated other changes in equity from nonowner sources were as follows:

(for the year ended December 31, in millions)	**2008**	**2007**	**2006**
Fixed maturities	**$ (294)**	$ 768	$ 422
Equity securities	**(82)**	15	37
Venture capital	**8**	17	108
Other investments	**115**	138	113
Unrealized investment gains (losses) before tax	**(253)**	938	680
Tax expense (benefit)	**(109)**	318	227
Net unrealized investment gains (losses) at end of year	**$ (144)**	$ 620	$ 453

Net pretax unrealized investment losses totaled $253 million at December 31, 2008, compared with net pretax unrealized investment gains of $938 million at December 31, 2007. The net unrealized loss position at December 31, 2008 reflected the impact of rising interest rates on longer-dated fixed maturity securities (primarily due to the widening of credit spreads generally), as well as net unrealized investment losses on equity securities, which reflected current market conditions.

Net pretax unrealized investment gains at December 31, 2007 increased by $258 million over year-end 2006, primarily driven by the fixed maturity portfolio. The increase in net unrealized investment gains on fixed maturities was primarily driven by the impact of declining market interest rates on both taxable and tax-exempt securities, which were partially offset by an increase in credit spreads and a decrease in unrealized investment gains in the venture capital portfolio, primarily due to sale activities. In May 2007, the Company completed a bundled sale of a substantial portion of its venture capital portfolio, which resulted in the realization of $81 million of previously unrealized net investment gains.

Table of Contents

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

(for the year ended December 31, in millions)	2008	2007	2006
Fixed maturities	**$ 324**	$ 37	$ 7
Equity securities	**74**	7	4
Other investments	**22**	26	37
Total	**$ 420**	$ 70	$ 48

For the year ended December 31, 2008, the Company recognized the following other-than-temporary impairments:

$324 million in the fixed maturities portfolio, consisting of $210 million related to the deteriorated financial position of various issuers (of which $70 million related to securities issued by Lehman Brothers Holdings, Inc. and its subsidiaries), $81 million 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 and $33 million resulting from the intent or potential to sell various holdings prior to a recovery in market value;

$74 million in the equity portfolio consisting of $26 million 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, $26 million related to securities with respect to which it was determined that the cost basis of those securities would not be recovered over the expected holding period and $22 million resulting from the intent or potential to sell prior to a recovery in market value;

$14 million in the venture capital portfolio on 16 holdings, consisting of $6 million related to six holdings which were 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 and ten holdings which experienced fundamental economic deterioration; and

$8 million in other investments of which $6 million related to the fundamental decline in the financial condition of a privately-held investment and $2 million resulted from the intent or potential to sell prior to a recovery in market value.

For the year ended December 31, 2007, the Company recognized the following other-than-temporary impairments:

$37 million in the fixed maturities portfolio, consisting of $23 million 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, and $14 million related to credit risk associated with various issuers' deteriorated financial position;

$7 million in the equity portfolio 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;

$10 million in the real estate portfolio, related to the fundamental decline in the financial condition of one real estate development property; and

$16 million in the venture capital portfolio on 14 holdings. Three of the holdings were public securities whose cost basis was not anticipated to be recovered over the expected holding period. Nine holdings experienced fundamental economic deterioration (characterized by less than expected revenues or a fundamental change in product). The remaining two holdings were impaired due to the impending sale, liquidation or shutdown of the entity.

Table of Contents

For the year ended December 31, 2006, the Company recognized the following other-than-temporary impairments:

- $7 million in the fixed maturities portfolio, consisting of $6 million 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 and $1 million related to credit risk associated with various issuers' deteriorated financial position;

- $4 million in the equity portfolio when it was determined that the cost basis of those securities would not be recovered over the expected holding period;

- $33 million in the venture capital portfolio on 16 holdings. Four of the holdings were impaired due to new financings on unfavorable terms. Six holdings experienced fundamental economic deterioration (characterized by less than expected revenues or a fundamental change in product). Four of the holdings were impaired due to the impending sale, liquidation or shutdown of the entity. Two of the holdings were public securities whose cost basis was not anticipated to be recovered over the expected holding period; and

- $4 million in other investments (excluding venture capital). The loss recorded was the result of one mortgage loan refinancing at less favorable terms.

The market disruptions that occurred in the second half of 2008 led to many of the 2008 impairment losses and resulted in increased unrealized losses compared with previous years. The Company continually evaluates current developments in the market that have the potential to affect the valuation of the Company's investments.

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 December 31, 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:

	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
(in millions)	**Less Than 3 Months**	**Greater Than 3 Months, Less Than 6 Months**	**Greater Than 6 Months, Less Than 12 Months**	**Greater Than 12 Months**	**Total**
Fixed maturities:					
Mortgage-backed securities	**$ 222**	**$ 36**	**$ 1**	**$**	**$ 259**
Other	**329**	**73**	**12**		**414**
Total fixed maturities	**551**	**109**	**13**		**673**
Equity securities	**41**	**30**			**71**
Total	**$ 592**	**$ 139**	**$ 13**	**$**	**$ 744**

These unrealized losses at December 31, 2008 represent approximately 1% of the combined fixed maturity and equity security portfolios on a pretax basis and approximately 2% of shareholders' equity on an after-tax basis.

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

At December 31, 2008, below investment grade securities comprised 2.0% of the Company's fixed maturity investment portfolio. Included in below investment grade securities at December 31, 2008 were securities in an unrealized loss position that, in the aggregate, had an amortized cost of $1.34 billion and a fair value of $1.08 billion, resulting in a net pretax unrealized investment loss of

Table of Contents

$258 million. These securities in an unrealized loss position represented approximately 2% of both the total amortized cost and the fair value of the fixed maturity portfolio at December 31, 2008. These securities accounted for 15% of the total pretax unrealized investment loss in the fixed maturity portfolio at December 31, 2008.

Following are the pretax realized losses on investments sold during the year ended December 31, 2008:

(in millions)	Loss	Fair Value
Fixed maturities	$ 168	$ 2,735
Equity securities	4	17
Total	$ 172	$ 2,752

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

CATASTROPHE MODELING

The Company uses various analyses and methods, including computer modeling techniques, to analyze catastrophic events and the risks associated with them. The Company uses these analyses and methods to make underwriting and reinsurance decisions designed to manage its exposure to catastrophic events.

In making underwriting and reinsurance decisions, for hurricane and earthquake exposures, the Company uses third-party proprietary computer modeling in an attempt to estimate the likelihood that the loss from a single event occurring in a one-year timeframe will equal or exceed a particular amount. The tables below set forth the estimated probabilities that losses from a single event occurring in a one-year timeframe will equal or exceed the indicated loss amounts (expressed in dollars and as a percentage of the Company's common equity). For example, on the basis described below the tables, the Company estimates that there is a one percent chance that the Company's loss from a single U.S. hurricane occurring in a one-year timeframe would equal or exceed $1.3 billion, or 5 percent of the Company's common equity at December 31, 2008.

	Dollars (in billions)	
Likelihood of Exceedance(1)	Single Hurricane	Single Earthquake
2.0% (1-in-50)	$ 1.1	$ 0.4
1.0% (1-in-100)	$ 1.3	$ 0.6
0.4% (1-in-250)	$ 2.1	$ 0.9
0.1% (1-in-1,000)	$ 4.8	$ 2.1

Table of Contents

Likelihood of Exceedance	Percentage of Common Equity Single Hurricane	Single Earthquake
2.0% (1-in-50)	**4%**	**2%**
1.0% (1-in-100)	**5%**	**3%**
0.4% (1-in-250)	**8%**	**4%**
0.1% (1-in-1,000)	**19%**	**8%**

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

The threshold loss amounts in the tables above are net of reinsurance, after-tax and exclude loss adjustment expense, which historically has been less than 10% of loss estimates. The amounts for hurricanes reflect U.S. exposures and include property exposures, other than offshore energy and marine exposures, property residual market exposures and an adjustment for certain non-property exposures. The amounts for earthquakes reflect U.S. and Canadian exposures and include property exposures and workers' compensation exposures. The Company does not believe that the inclusion of hurricane or earthquake losses arising from other geographical areas or other exposures would materially change the estimated threshold loss amounts. This information in the tables is based on the Company's in-force portfolio and catastrophic reinsurance program as of December 31, 2008.

Catastrophe modeling requires a significant amount of judgment and a number of assumptions and relies upon inputs based on experience, science, engineering and history. As a result, such models may fail to account for risks that are outside the range of normal probability or that are otherwise unforeseeable. Catastrophe modeling assumptions include, among others, the portion of purchased reinsurance that is collectible after a catastrophic event, which may prove to be materially incorrect. Consequently, catastrophe modeling estimates are subject to significant uncertainty. In the tables above, the uncertainty associated with the estimated threshold loss amounts increases significantly as the likelihood of exceedance decreases. In other words, in the case of a relatively more remote event (e.g., 1-in-1000), the estimated threshold loss amount is relatively less reliable. Actual losses from an event could materially exceed the indicated threshold loss amount. In addition, more than one such event could occur in any period.

Moreover, the Company is exposed to the risk of material losses from other than property and workers' compensation coverages arising out of hurricanes and earthquakes, and it is exposed to catastrophe losses from perils other than hurricanes and earthquakes, for example, floods, tornadoes and acts of terrorism.

There are no industry-standard methodologies or assumptions for projecting catastrophe exposure. Accordingly, catastrophe estimates provided by different insurers may not be comparable.

For more information about the Company's exposure to catastrophe losses, see "Item 1A Risk Factors Catastrophe losses could materially and adversely affect our results of operations, our financial position and/or liquidity, and could adversely impact our ratings, our ability to raise capital and the availability and cost of reinsurance."

Table of Contents

REINSURANCE RECOVERABLES

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

The Company's reinsurance recoverables totaled $14.23 billion at December 31, 2008, a decline of $1.41 billion from year-end 2007, primarily reflecting the sale of Unionamerica, various commutation agreements and collections on reinsurance recoverables, including those related to prior years' hurricane losses.

The Company has also entered into Master Security Agreements with certain reinsurers. These agreements define conditions that require the reinsurer to provide collateral. The specific conditions and the amounts and form of collateral to be provided by these agreements vary based on a number of factors including, but not limited to, the reinsurers' legal structure and trading history with the Company. One such agreement has been reached with XL Re America, a member of XL Capital Group. In addition, the Company is beneficiary under a trust arrangement with XL Re America which partially covers reinsurance recoverables from XL Re America at December 31, 2008.

The following table presents the Company's top five reinsurer groups by reinsurance recoverable at December 31, 2008 (in millions). Also included is the A.M. Best rating of each reinsurer group at February 19, 2009:

Reinsurer Group	Reinsurance Recoverable	A.M. Best Rating of Group's Predominant Reinsurer	
Swiss Re Group	$ 1,009	A+	second highest of 16 ratings
Munich Re Group	831	A+	second highest of 16 ratings
Berkshire Hathaway Group	495	A++	highest of 16 ratings
Transatlantic Holdings, Inc.(1)	495	A	third highest of 16 ratings
XL Capital Group	465	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 $71 million at December 31, 2008 exclusive of TRH).

At December 31, 2008, $2.56 billion of reinsurance recoverables were collateralized by letters of credit, trust agreements and funds held.

Included in reinsurance recoverables are certain amounts related to structured settlements. Structured settlements comprise annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where the Company did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables as the Company retains the contingent liability to the claimant. In the event that the life insurance company fails to make the required annuity payments, the Company would be required to make such payments. The following table presents the Company's top five groups by structured settlements at December 31, 2008 (in millions). Also included is the A.M. Best rating of the Company's predominant insurer from each insurer group at February 19, 2009:

Group	Structured Settlements	A.M. Best Rating of Group's Predominant Insurer	
Old Mutual	$ 1,075	A	third highest of 16 ratings
MetLife	554	A+	second highest of 16 ratings
Genworth	485	A+	second highest of 16 ratings
Symetra	296	A	third highest of 16 ratings
ING Group	242	A+	second highest of 16 ratings

Many reinsurance companies and life insurance companies have been negatively impacted by deteriorating economic conditions, including unprecedented financial market disruption. A number of such companies have been subjected to downgrades and/or negative outlook changes by various ratings agencies, including those with which the Company conducts business. The Company considers these factors in assessing the adequacy of its allowance for uncollectible amounts.

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 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.

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 in 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 addition, in an inflationary environment, loss costs may increase. Such costs may also increase in an economic downturn, due to an increase in fraudulent reporting of claims, reduced maintenance of insured property or increased frequency of small claims. 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 shareholders' equity and statutory surplus. 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 maturity investments and other invested assets.

Competition. The Company expects property casualty insurance market conditions to continue to be very competitive in 2009, particularly for new business. If the current disruption in the insurance marketplace continues into 2009, there may be increased opportunity for new business, but competition for that new business may also be significant. For example, competitors that are experiencing financial difficulties may offer products at prices and on terms that are not consistent with the Company's

Table of Contents

economic standards in an effort to maintain their business. 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 segments, the Company expects renewal price changes in 2009 to be flat with or modestly increase over their 2008 levels. With regard to the components comprising renewal price changes, the potential slight improvement in rates in 2009 in some product lines is expected to be largely offset by a decline in exposures. In the Personal Insurance segment in 2009, the Company expects that automobile and homeowners renewal price changes will increase slightly over their 2008 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 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 experienced a higher than anticipated level of large, non weather-related losses during 2008. In the Personal Insurance segment, the Company experienced a higher than anticipated level of non-catastrophe weather related losses during 2008. If these are trends that continue in 2009, they could result in reduced underwriting profit.

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 continues to reassess its definition of, and exposure to, coastal risks. These risks are 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 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.

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 maturity 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 2008 and 2007, short-term interest rates declined, reducing the interest income on the Company's short-term investment portfolio. In the second half 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 pretax unrealized loss of $294 million in its fixed maturities portfolio at December 31, 2008, compared with a net pretax unrealized gain of $768 million at December 31, 2007.

The market disruption that occurred in the second half of 2008 resulted in a lack of liquidity in certain sectors of the credit markets and a widening of credit spreads generally. At December 31, 2008, the Company had unrealized investment losses of $744 million on securities for which fair value was less than 80% of cost of the security. Approximately $592 million of the unrealized investment losses had continuously been in an unrealized loss position of greater than 20% of cost for less than three months. If the market disruption continues and interest rates (inclusive of credit spreads) remain steady or rise, the amount of securities in an unrealized loss of greater than 20% may age and significant additional unrealized investment losses could occur in the portfolio. These circumstances may result in significant realized losses through sales of securities or other-than-temporary impairment charges in 2009.

At December 31, 2008, approximately 5% of the Company's invested assets were comprised of equity securities, private equity limited partnerships, hedge funds, real estate partnerships, joint ventures, mortgage loans, venture capital investments and trading securities, which are subject to greater volatility than fixed maturity investments. General economic conditions, stock market conditions and many other factors beyond the Company's control may affect the value of these non-fixed maturity 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 investments in private equity limited partnerships, real estate partnerships and hedge funds, resulting in a decline in transaction volume in these asset classes, and as a result, lower net investment income. For the year ended December 31, 2008, these non-fixed maturity investments collectively produced negative investment income. If the current unfavorable economic environment persists in 2009, the Company may continue to experience negative returns from these investments. 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 in 2009, particularly with respect to its non-fixed maturity investment portfolio.

For a discussion of potential risks that could impact the Company's financial condition or results of operations, see "Item 1A Risk Factors" in this report.

Table of Contents

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 December 31, 2008, total cash, short-term invested assets and other readily marketable securities aggregating $2.15 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 holding company's current liquidity requirements. These liquidity requirements primarily include shareholder dividends and debt service. The Company's insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of insurance regulatory authorities. A maximum of $3.07 billion is available in 2009 for such dividends without prior approval of the Connecticut Insurance Department for Connecticut-domiciled subsidiaries and the Minnesota Department of Commerce for Minnesota-domiciled subsidiaries. The holding company received $3.70 billion of dividends from its domestic insurance subsidiaries in 2008. The Company has a shelf registration with the Securities and Exchange Commission which permits it to issue securities. The Company also has a $1.0 billion line of credit facility with several major banks that expires in the second quarter of 2010. In the fourth quarter of 2008, the Company replaced Lehman Brothers Bank, FSB's $60 million participation in this facility through an assignment to another financial institution. This line of credit also backs up the Company's $800 million commercial paper program, of which $100 million was outstanding at December 31, 2008. The Company is not reliant on its commercial paper program to meet its operating cash flow needs.

The Company currently utilizes letters of credit issued by major banks to support its operations at Lloyd's. As a result of movements in foreign currency exchange rates, additional capital, which the Company expects to provide by obtaining additional letters of credit issued by major banks, will be required in the near-term to support the Company's operations at Lloyd's. If letters of credit are not available at a reasonable price or at all in the future, the Company may have to seek alternative means of supporting its operations at Lloyd's, which could include utilizing holding company funds on hand.

Operating Activities

Net cash flows provided by operating activities totaled $3.14 billion, $5.29 billion and $4.77 billion in 2008, 2007 and 2006, respectively. Cash flows in 2008 reflected an increase in claim payments (including the impact of higher catastrophe losses and 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 2007. In addition, the Company made a $450 million contribution to its pension plan in 2008. No pension plan contribution was made in 2007. Cash flows in each of 2007 and 2006, as compared to the preceding year, reflected higher levels of collected premiums and net investment income, lower claim payments on catastrophe losses, as well as lower runoff claim payments. Cash flows from operations in 2007 and 2006 benefited from significant collections on reinsurance recoverables in both years, including those related to 2005 hurricane losses, operations in runoff (primarily Gulf) and various commutation agreements. These factors were partially offset by an increase in tax payments resulting from higher profitability, expenses related to increased business volume and continued expenditures to support business growth and product development, and higher interest payments.

Investing Activities

Net cash flows used in investing activities totaled $162 million, $2.53 billion and $3.06 billion in 2008, 2007 and 2006, respectively. Fixed maturity securities accounted for the majority of investment purchases in all three years.

The Company's consolidated total investments at December 31, 2008 declined $4.08 billion from year-end 2007, reflecting the $2.12 billion of common share repurchases made during 2008, a $1.19 billion pretax decline in the unrealized appreciation of investments since year-end 2007 (to an unrealized loss position at December 31, 2008), the sale of Unionamerica and dividends to shareholders, partially offset by investment purchases resulting from strong cash flows from operations. The net unrealized loss position at December 31, 2008 reflected the impact of rising interest rates on longer-dated fixed maturity securities primarily due to the widening of credit spreads generally.

The Company's management of the duration of the fixed maturity 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 4.2 and 4.0 at December 31, 2008 and 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 maturity portfolio adequately fund the estimated runoff of the Company's insurance reserves. Although this is not an exact cash flow match in each period, the substantial degree by which the market value of the fixed maturity 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 totaled $2.87 billion, $2.95 billion and $1.59 billion in 2008, 2007 and 2006, respectively. The 2008 total 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. The 2007 and 2006 totals primarily reflected common share repurchases, the early redemption of debt, the repayment of maturing debt and dividends to shareholders, partially offset by the issuance of debt and proceeds from employee stock option exercises.

Debt Transactions.

2008. 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

Table of Contents

(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.

On December 15, 2008, two medium-term notes with a cumulative par value of $149 million, each bearing an interest rate of 6.38%, matured and were fully paid.

2007. In January 2007, the Company redeemed $81 million of 8.47% subordinated debentures originally issued in 1997 and due January 10, 2027. The debentures were redeemable by the Company on or after January 10, 2007. In January 1997, USF&G Capital II, a business trust, issued $100 million of capital securities, the proceeds of which, along with $3 million in capital provided by the Company, were used to purchase the subordinated debentures issued by USF&G Corporation and subsequently assumed by the Company after the merger of The St. Paul Companies Inc. (SPC) and Travelers Property Casualty Corp. (TPC). During the period prior to redemption, the Company had repurchased and retired $22 million of the debentures in open market transactions. Upon the Company's redemption of the remaining $81 million of subordinated debentures in January 2007, USF&G Capital II in turn used the proceeds to redeem its remaining capital securities outstanding. USF&G Capital II was then liquidated, and the Company received a $3 million distribution of capital. The Company recorded a $3 million pretax gain on the redemption of the subordinated debentures, due to the remaining unamortized fair value adjustment recorded at the merger date, less the redemption premium paid.

In March 2007, the Company issued $1 billion aggregate principal amount of 6.25% fixed-to-floating rate junior subordinated debentures due March 15, 2067 for net proceeds of $986 million (after original issue discount and the deduction of underwriting expenses and commissions and other expenses). The debentures were issued at a discount, resulting in an effective interest rate of 6.447%. The debentures bear interest at an annual rate of 6.25% from the date of issuance to, but excluding, March 15, 2017, payable semi-annually in arrears on March 15 and September 15. From and including March 15, 2017, the debentures will bear interest at an annual rate equal to three-month LIBOR plus 2.215%, payable quarterly on March 15, June 15, September 15 and December 15 of each year. The Company has the right, on one or more occasions, to defer the payment of interest on the debentures. The Company will not be required to settle deferred interest until it has deferred interest for five consecutive years or, if earlier, made a payment of current interest during a deferral period. The Company may defer interest for up to ten consecutive years without giving rise to an event of default. Deferred interest will accumulate additional interest at an annual rate equal to the annual interest rate then applicable to the debentures.

The debentures carry a 60-year final maturity and a scheduled maturity date in year thirty. During the 180-day period ending not more than fifteen and not less than ten business days prior to the scheduled maturity date, the Company is required to use commercially reasonable efforts to sell enough qualifying capital securities, or at its option, common stock, qualifying warrants, mandatorily convertible preferred stock, debt exchangeable for common equity or debt exchangeable for preferred equity to permit repayment of the debentures at the scheduled maturity date. If any debentures remain outstanding after the scheduled maturity date, the unpaid amount will remain outstanding until the Company has raised sufficient proceeds from the sale of qualifying capital securities or, at its option, common stock, qualifying warrants, mandatorily convertible preferred stock, debt exchangeable for common equity or debt exchangeable for preferred equity to permit the repayment in full of the debentures. If there are remaining debentures at the final maturity date, the Company is required to redeem the debentures using any source of funds. Qualifying capital securities are securities (other than common stock, qualifying warrants, mandatorily convertible preferred stock, debt exchangeable for common equity, and debt exchangeable for preferred equity) which generally are treated by the ratings agencies as having similar equity content to the debentures.

Table of Contents

The Company can redeem the debentures at its option, in whole or in part, at any time on or after March 15, 2017 at a redemption price of 100% of the principal amount being redeemed plus accrued but unpaid interest. The Company can redeem the debentures at its option prior to March 15, 2017 (a) in whole at any time or in part from time to time or (b) in whole, but not in part, in the event of certain tax or rating agency events relating to the debentures, at a redemption price equal to the greater of 100% of the principal amount being redeemed and the applicable make-whole amount, in each case plus any accrued and unpaid interest.

In connection with the offering of the debentures, the Company entered into a "replacement capital covenant" for the benefit of holders of one or more designated series of the Company's indebtedness (which will initially be the 6.750% senior notes due 2036). Under the terms of the replacement capital covenant, if the Company redeems the debentures at any time prior to March 15, 2047 it can only do so with the proceeds of securities that are treated by the rating agencies as having similar equity content to the debentures.

In March 2007, the Company's $500 million, 5.75% senior notes matured and were fully paid.

In April 2007, the Company completed the redemption of its outstanding $893 million, 4.50% convertible junior subordinated notes due in 2032 (the notes). The notes were originally issued by Travelers Property Casualty Corp., and the Company assumed certain obligations relating to the notes pursuant to a Second Supplemental Indenture dated April 1, 2004. Each note had a principal amount of $25.00. The redemption price for each note was $25.5625 plus $0.009375 of accrued and unpaid interest. Any note called for redemption could be surrendered for conversion into common stock before the close of business on April 17, 2007. Each note was convertible into 0.4684 shares of common stock of The Travelers Companies, Inc. Holders of $36 million of the notes tendered their certificates in exchange for the issuance of 670,910 of the Company's common shares. The remaining $857 million of notes were redeemed for cash, along with accrued interest to the date of redemption. The Company recorded a $39 million pretax loss ($25 million after-tax) in other revenues in the second quarter of 2007 related to the redemption, consisting of the redemption premium paid and the write-off of remaining unamortized issuance costs.

In May 2007, the Company issued $250 million aggregate principal amount of 5.375% senior notes due June 15, 2012 (the 2012 senior notes), $450 million aggregate principal amount of 5.750% senior notes due December 15, 2017 (the 2017 senior notes), and $800 million aggregate principal amount of 6.250% senior notes due June 15, 2037 (the 2037 senior notes). The total net proceeds of these three senior note issuances, after original issuance discounts and the deduction of underwriting expenses and commissions and other expenses, were approximately $1.47 billion. Interest on each of the senior note issuances is payable semi-annually on June 15 and December 15, commencing December 15, 2007. Each series of senior notes is 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 12.5 basis points for the 2012 senior notes, 15 basis points for the 2017 senior notes and 20 basis points for the 2037 senior notes. The Company applied a portion of the net proceeds of this offering to repay approximately $442 million of senior notes maturing on August 16, 2007 and to repay approximately $42 million of medium-term notes maturing in the third quarter of 2007. The remaining proceeds were used for general corporate purposes. Prior to applying these proceeds, the Company invested them in investment grade, marketable securities.

In August 2007, the Company's $442 million, 5.01% senior notes matured and were fully paid.

Table of Contents

In 2007, medium-term notes with a cumulative par value of $72 million and interest rates ranging from 6.85% to 7.37% matured and were fully paid.

2006. In June 2006, the Company issued $400 million aggregate principal amount of 6.25% senior unsecured notes due June 20, 2016 and $400 million aggregate principal amount of 6.75% senior unsecured notes due June 20, 2036. The notes were issued at a discount, resulting in effective interest rates of 6.30% and 6.86%, respectively. Net proceeds from the issuances (after original issue discount and expenses) totaled approximately $786 million, which the Company applied to the redemption of approximately $593 million of 7.60% subordinated debentures (described in more detail below), $150 million of 6.75% senior notes that matured on November 15, 2006 and $56 million of medium-term notes that matured in the second half of the year.

In November 2006, the Company redeemed $593 million of 7.60% subordinated debentures originally issued in 2001 and due October 15, 2050. The debentures were redeemable by the Company on or after November 13, 2006. In November 2001, St. Paul Capital Trust I, a business trust, issued $575 million of preferred securities, the proceeds of which, along with $18 million in capital provided by the Company, were used to purchase the subordinated debentures issued by the Company. Upon the Company's redemption of its subordinated debentures in November 2006, St. Paul Capital Trust I in turn used the proceeds to redeem its preferred securities. St. Paul Capital Trust I was then liquidated, and the Company received an $18 million distribution of capital. The Company recorded a $42 million pretax gain on the redemption of the subordinated debentures, representing the remaining unamortized fair value adjustment recorded at the merger date. A portion of the proceeds from the June 2006 debt issuances described above was used to fund this redemption.

The Company's debt-to-capital ratio of 19.5% at December 31, 2008 was slightly below its 20% targeted level.

The amounts of debt obligations, other than commercial paper, that becomes due in 2009, 2010 and 2011, are $143 million, $273 million and $11 million, respectively.

Dividends. Dividends paid to shareholders totaled $715 million, $742 million and $702 million in 2008, 2007 and 2006, respectively. On February 4, 2009, the Company's board of directors declared a quarterly dividend of $0.30 per share, payable March 31, 2009 to shareholders of record on March 10, 2009. The declaration and payment of future dividends to holders of the Company's common stock will be at the discretion of the Company's board of directors and will depend upon many factors, including the Company's financial position, earnings, capital requirements of the Company's operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant. Dividends 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. Share repurchase levels in prior periods 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 reduced its level of share repurchases in the fourth quarter of 2008 compared to prior quarters and will likely reduce its share repurchases in 2009 as compared to the level of repurchases in preceding years, although the Company's plans may change depending on market conditions, potential investment opportunities, the Company's share price performance or other factors. This potential reduction in share repurchases in 2009 reflects uncertainty with regard to current economic conditions and not a fundamental change in the Company's capital management strategy. The following table summarizes repurchase activity in 2008 and remaining repurchase capacity at December 31, 2008.

Quarterly Period Ending	Number of shares purchased	Cost of shares repurchased	Average price paid per share	Remaining capacity under share repurchase program
March 31, 2008	20,831,251	$1,000,332,704	$ 48.02	$ 4,931,853,967
June 30, 2008	15,287,182	750,014,344	49.06	4,181,839,623
September 30, 2008	6,197,529	271,984,984	43.89	3,909,854,639
December 31, 2008	2,712,550	99,997,100	36.86	3,809,857,539
Total	45,028,512	$2,122,329,132	$ 47.13	$ 3,809,857,539

Since the inception of the repurchase authorizations in May 2006, the Company has repurchased a cumulative total of 123.9 million shares for a total cost of $6.19 billion, or $49.98 per share, through December 31, 2008.

In 2008, 2007 and 2006, the Company acquired 0.8 million, 1.7 million and 1.2 million shares, respectively, of common stock from employees as treasury stock primarily to cover payroll withholding taxes related to the vesting of restricted stock awards and exercises of stock options.

Capital Resources

Capital resources reflect the overall financial strength of the Company and its ability to borrow funds at competitive rates and raise new capital to meet its needs. The following table summarizes the components of the Company's capital structure at December 31, 2008 and 2007.

(at December 31, in millions)	2008	2007
Debt:		
Short-term	**$ 242**	$ 649
Long-term	**5,938**	5,577
Net unamortized fair value adjustments and debt issuance costs	**1**	16
Total debt	**6,181**	6,242
Preferred shareholders' equity	**89**	112
Common shareholders' equity:		
Common stock and retained earnings, less treasury stock	**26,130**	25,834
Accumulated other changes in equity from nonowner sources	**(900)**	670
Total shareholders' equity	**25,319**	26,616
Total capitalization	**$ 31,500**	$ 32,858

The $1.36 billion decrease in total capitalization from year-end 2007 reflected the impact of $2.12 billion of common share repurchases, a net after-tax $764 million decline in net unrealized appreciation on investments (to a net unrealized loss position at December 31, 2008), $715 million of dividends to shareholders, a $405 million decline primarily due to a reduction in the fair value of pension plan assets, and, to a lesser degree, the impact of changes in foreign currency exchange rates. These factors were partially offset by net income in 2008. The net unrealized loss position at December 31, 2008 reflected the impact of rising interest rates on longer-dated fixed maturity securities primarily due to the widening of credit spreads generally.

Line of Credit Agreement. The Company maintains an $800 million commercial paper program, of which $100 million was outstanding at December 31, 2008, with back-up liquidity consisting of a bank

118

Table of Contents

credit agreement. On June 10, 2005, the Company entered into a $1.0 billion, five-year revolving credit agreement with a syndicate of financial institutions. Pursuant to covenants in the credit agreement, the Company must maintain an excess of consolidated net worth over goodwill and other intangible assets of not less than $10 billion at all times. The Company must also maintain a ratio of total consolidated debt to the sum of total consolidated debt plus consolidated net worth of not greater than 0.40 to 1.00. In addition, the credit agreement contains other customary restrictive covenants as well as certain customary events of default, including with respect to a change in control. At December 31, 2008, the Company was in compliance with these covenants and all other covenants related to its outstanding debt instruments. There was no amount outstanding under the credit agreement as of December 31, 2008.

Shelf Registration. In December 2008, the Company filed with the Securities and Exchange Commission a universal shelf registration statement for the potential offering and sale of securities to replace its expiring universal shelf registration statement. The Company may offer these securities from time to time at prices and on other terms to be determined at the time of offering. During 2008 and 2007, the Company issued $500 million and $2.50 billion, respectively, of debt (as described above) under the prior shelf registration statement.

Share Repurchase Authorization. At December 31, 2008, the Company had $3.81 billion of capacity remaining under its share repurchase authorization approved by the board of directors.

Contractual Obligations

The following table summarizes, as of December 31, 2008, the Company's future payments under contractual obligations and estimated claims and claims related payments. The table excludes short-term obligations and includes only liabilities at December 31, 2008 that are expected to be settled in cash.

The table below includes the amount and estimated future timing of claims and claim related payments. The amounts do not represent the exact liability, but instead represent estimates, generally utilizing actuarial projections techniques, at a given accounting date. These estimates include expectations of what the ultimate settlement and administration of claims will cost based on the Company's assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the policyholder event and the time it is actually reported to the insurer. The future cash flows related to the items contained in the table below required estimation of both amount (including severity considerations) and timing. Amount and timing are frequently estimated separately. An estimation of both amount and timing of future cash flows related to claims and claim related payments is generally reliable only in the aggregate with some unavoidable estimation uncertainty.

Table of Contents

The contractual obligations related to debt, operating leases, purchase obligations, long-term unfunded investment commitments, estimated claims and claims related payments (gross of the estimated reinsurance recoveries) and liabilities related to unrecognized tax benefits, at December 31, 2008 were as follows:

Payments Due by Period (in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Debt(1)					
Medium-term notes	$ 21	$	$ 21	$	$
Senior notes	4,650		250	750	3,650
Junior subordinated debentures	1,254				1,254
Zero coupon convertible notes	141	141			
Private placement notes	15	2	13		
Total debt principal	6,081	143	284	750	4,904
Interest	5,384	371	708	662	3,643
Total long-term debt obligations	11,465	514	992	1,412	8,547
Operating leases(2)	802	180	289	173	160
Purchase obligations					
Information systems administration and maintenance commitments(3)	237	77	94	66	
Reinsurance brokerage commitment(4)	80	20	40	20	
Other purchase commitments(5)	110	61	9	5	35
Total purchase obligations	427	158	143	91	35
Long-term unfunded investment commitments (6)	1,562	374	505	454	229
Estimated claims and claims related payments					
Claims and claim adjustment expenses(7)	55,735	11,862	15,015	9,103	19,755
Claims from large deductible policies(8)					
Loss-based assessments(9)	231	32	52	25	122
Reinsurance contracts accounted for as deposits(10)	49	49			
Payout from ceded funds withheld(11)	283	53	139	9	82
Total estimated claims and claims related payments	56,298	11,996	15,206	9,137	19,959
Liabilities related to unrecognized tax benefits(12)	1,280	752	528		
Total	$ 71,834	$ 13,974	$ 17,663	$ 11,267	$ 28,930

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

(2) Represents agreements entered into in the ordinary course of business to lease office space, equipment and furniture.

(3) Includes agreements with vendors to purchase system software administration and maintenance services.

Table of Contents

(4)

In connection with the sale of its insurance brokerage operations, the Company committed to acquire brokerage services from the buyer through 2012. See note 15 of notes to the Company's consolidated financial statements.

(5)

Includes commitments to vendors entered into in the ordinary course of business for goods and services including office supplies, archival services, etc.

(6)

Represents estimated timing for fulfilling unfunded commitments for private equity limited partnerships, hedge funds, real estate partnerships, joint ventures and certain private equity investments.

(7)

The amounts in "Claims and claim adjustment expenses" in the table above represent the estimated timing of future payments for both reported and unreported claims incurred and related claim adjustment expenses, gross of reinsurance recoverables.

The Company has entered into reinsurance agreements to protect itself from potential losses in excess of the amount it is prepared to accept as described in note 5 of notes to the Company's consolidated financial statements.

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

Reinsurance agreements that do not transfer both amount and timing risk are accounted for as deposits and included in "Reinsurance contracts accounted for as deposits" in the table above.

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

(in millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Reinsurance receivables	**$ 13,553**	**$ 2,705**	**$ 3,448**	**$ 2,221**	**$ 5,179**

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

(in millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Claims and claim adjustment expenses, net	**$ 42,182**	**$ 9,157**	**$ 11,567**	**$ 6,882**	**$ 14,576**

For business underwritten by non-U.S. operations, future cash flows related to reported and unreported claims incurred and related claim adjustment expenses were translated at the spot rate on December 31, 2008.

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

Table of Contents

been discounted in the balance sheet. (See note 1 of notes to the Company's consolidated financial statements.)

(8)

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

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

(in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Contractholder payables/receivables	**$ 6,350**	**$ 1,619**	**$ 1,811**	**$ 937**	**$ 1,983**

(9)

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

(10)

The amounts in "Reinsurance contracts accounted for as deposits" represent estimated future nominal payments for reinsurance agreements that are accounted for as deposits. Amounts payable under deposit agreements are included in "other liabilities" in the consolidated balance sheet. The amounts reported in the table are presented on a nominal basis and have not been adjusted to reflect the time value of money. Accordingly, the amounts above will differ from the Company's balance sheet to the extent that deposit values in the balance sheet have been discounted using deposit accounting.

(11)

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

(12)

Amounts are included in the consolidated balance sheet as "Other liabilities" and "Deferred tax asset."

Some of the Company's liabilities related to unrecognized tax benefits have associated temporary differences for which offsetting current or deferred tax assets exist and are as follows:

(in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Receivables related to unrecognized tax benefits	**$ 1,186**	**$ 663**	**$ 523**	**$**	**$**

The above table does not include an analysis of liabilities reported for structured settlements for which the Company has purchased annuities and remains contingently liable in the event of default by the company issuing the annuity. The Company is not reasonably likely to incur material future

payment obligations under such agreements. In addition, the Company does not have a best estimate of contributions expected to be paid to its qualified pension plan. Accordingly, any future contributions are not included in the foregoing table.

Dividend Availability

The Company's principal insurance subsidiaries are domiciled in the states of Connecticut and Minnesota. The insurance holding company laws of both states applicable to the Company's subsidiaries requires notice to, and approval by, the state insurance commissioner for the declaration or payment of any dividend that, together with other distributions made within the preceding twelve months, exceeds the greater of 10% of the insurer's capital and surplus as of the preceding December 31, or the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices and by state regulation. This declaration or payment is further limited by adjusted unassigned surplus, as determined in accordance with statutory accounting practices.

The insurance holding company laws of other states in which the Company's subsidiaries are domiciled generally contain similar, although in some instances somewhat more restrictive, limitations on the payment of dividends. A maximum of $3.07 billion is available by the end of 2009 for such dividends without prior approval of the Connecticut Insurance Department for Connecticut-domiciled subsidiaries and the Minnesota Department of Commerce for Minnesota-domiciled subsidiaries. The holding company received $3.70 billion of dividends from its domestic insurance subsidiaries in 2008.

Risk-Based Capital

The NAIC adopted RBC requirements for property casualty companies to be used as minimum capital requirements by the NAIC and states to identify companies that merit further regulatory action. The formulas have not been designed to differentiate among adequately capitalized companies that operate with levels of capital higher than RBC requirements. Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank these companies. At December 31, 2008, all of the Company's insurance subsidiaries had adjusted capital in excess of amounts requiring any company or regulatory action.

Off-Balance Sheet Arrangements

The Company has entered into certain contingent obligations for guarantees related to letters of credit, issuance of debt securities, certain investments and various indemnifications, including those related to the sale of business entities. See note 15 of notes to the Company's consolidated financial statements. The Company does not expect these arrangements to have a material effect on the Company's financial position, changes in financial position, revenues and expenses, results of operations, liquidity, capital expenditures or capital resources.

CRITICAL ACCOUNTING ESTIMATES

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

Table of Contents

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, as claims are settled in the future, may be materially different in amount than current loss reserves 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 additional 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 $3.70 billion at December 31, 2008. While the ongoing review of asbestos and environmental claims and associated liabilities considers the inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of the Company's management, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current 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."

Table of Contents

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

(at December 31, in millions)	2008 Case	2008 IBNR	2008 Total	2007 Case	2007 IBNR	2007 Total
General liability	**$ 6,529**	**$ 11,809**	**$ 18,338**	$ 7,180	$ 12,388	$ 19,568
Property	**1,414**	**858**	**2,272**	1,069	963	2,032
Commercial multi-peril	**1,816**	**2,140**	**3,956**	1,860	2,499	4,359
Commercial automobile	**2,413**	**1,511**	**3,924**	2,450	1,640	4,090
Workers' compensation	**9,419**	**6,872**	**16,291**	9,373	6,474	15,847
Fidelity and surety	**697**	**1,168**	**1,865**	878	1,026	1,904
Personal automobile	**1,448**	**1,043**	**2,491**	1,466	998	2,464
Homeowners and personal other	**633**	**800**	**1,433**	545	739	1,284
International and other	**2,120**	**1,956**	**4,076**	3,054	3,017	6,071
Property-casualty	**26,489**	**28,157**	**54,646**	27,875	29,744	57,619
Accident and health	**68**	**9**	**77**	71	10	81
Claims and claim adjustment expense reserves	**$ 26,557**	**$ 28,166**	**$ 54,723**	$ 27,946	$ 29,754	$ 57,700

The $2.98 billion decline in gross claims and claim adjustment expense reserves since December 31, 2007 primarily reflected favorable prior year reserve development during 2008, payments related to operations in runoff (including asbestos and environmental payments) and the sale of Unionamerica, partially offset by catastrophe losses incurred. 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 I Item 3, Legal Proceedings").

Asbestos and environmental reserves are included in the General liability, Commercial multi-peril 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.

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

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

Most general liability policies are written on an occurrence basis. These policies are subject to substantial loss development over time as facts and circumstances change in the years following the policy issuance. The occurrence form, which accounts for much of the reserve development in asbestos and environmental exposures, is also used to provide coverage for construction general liability, including construction defect. Occurrence-based forms of insurance for general liability exposures require substantial projection of 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 data and, if available and when appropriate, external data. Such a measurement is specific to the facts and circumstances of the particular claim portfolio and the known change being evaluated. Significant structural changes to the available data, product mix or organization can materially impact the reserve estimation process.

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

Table of Contents

IBNR inherently more uncertain. In addition, the greater the reporting lag, the greater the proportion of IBNR to the total claim liability for the product line. Writing new products with material reporting lags can result in adding several years worth of IBNR claim exposure before the reporting lag exposure becomes clearly observable, thereby increasing the risk associated with 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, for high frequency/low severity lines the impact of individual claims is relatively minor and the range of reasonable reserve estimates is narrower and more stable.

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

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

Lastly, significant structural changes to the available data, product mix or organization can also materially impact the reserve estimation process. Events such as mergers increase the inherent uncertainty of reserve estimates for a period of time, until stable trends 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, but 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, causing actual paid losses, as claims are settled in the future, to be different in amount than the reserves being estimated currently.

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

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

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

Table of Contents

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

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

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

The principal estimation and analysis methods utilized by the Company's actuaries 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 for an explanation of these methods.)

While these are the principal methods utilized throughout the Company, actuaries 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 analyses may be performed based on the results of these diagnostics, including the investigation of other actuarial methods.

The methods described above are generally utilized to evaluate management's 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 an analysis of prior periods' experience, using loss trend, rate level differences, mix of business changes and other known or observed factors influencing the current accident year relative to prior accident years. The exact number of prior accident years utilized varies by product line component, based on the 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.

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 because the underlying causes of the trends observed need to be evaluated, which may require the gathering or assembling of data not previously available. It may also include interviews with experts involved with the underlying processes. As a result, there can be a time lag between the emergence of a change and a determination that the change should be reflected in the Company's estimated claim liabilities. The final estimate selected by management in a reporting period is based on these various detailed analyses of past data, adjusted to reflect any new actionable information.

Discussion of Product Lines

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

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

Table of Contents

General Liability

General liability is generally considered a long tail line, as it takes a relatively long period of time to finalize and settle claims from a given accident year. The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction and specific policy provisions such as self-insured retentions. There are numerous components underlying the general liability product line. Some of these have relatively moderate payment patterns (with most of the claims for a given accident year closed within 5 to 7 years), while others can have extreme lags in both reporting and payment of claims (e.g., a reporting lag of a decade or more for "construction defect" claims).

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

General liability reserves are generally analyzed as two components: primary and excess/umbrella, with the primary component generally analyzed separately for bodily injury and property damage. Bodily injury liability payments reimburse the claimant for damages pertaining to physical injury as a result of the policyholder's legal obligation arising from non-intentional acts such as negligence, subject to the insurance policy provisions. In some cases the damages can include future wage loss (which is a function of future earnings power and wage inflation) and future medical treatment costs. Property damage liability payments result from damages to the claimant's private property arising from the policyholder's legal obligation for non-intentional acts. In most cases, property damage losses are a function of costs as of the loss date, or soon thereafter. In addition, sizable or unique exposures are reviewed separately. These exposures include asbestos, environmental, other mass torts, construction defect, medical malpractice and large unique accounts that would otherwise distort the analysis. These unique categories often require a very high degree of judgment and require reserve analyses that do not rely on traditional actuarial methods.

Defense costs are also a part of the insured costs covered by liability policies and can be significant, sometimes greater than the cost of the actual paid claims. For some products this risk is mitigated by policy language such that the insured portion of defense costs erodes the amount of policy limit available to pay the claim. Such "defense within the limits" policies are most common for "claims-made" products. When defense costs are outside of the limits, amounts paid for defense costs do not erode the policy limits.

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

The amount of reserve estimate uncertainty also varies significantly by component for the general liability product line. The components in this product line with the longest latency, longest reporting lags, largest potential dollars involved and greatest claim settlement complexity are asbestos and environmental. Components that include latency, reporting lag and/or complexity issues, but to a

Table of Contents

materially lesser extent than asbestos and environmental, include construction defect, medical malpractice and other mass tort actions. Many components of general liability are not subject to material latency or claim complexity risks and hence have materially less uncertainty than the previously mentioned components. In general, policies providing coverage with shorter reporting lags, fewer parties involved in settlement negotiations, only one policy potentially triggered per claim, fewer potential settlement dollars, reasonably foreseeable (and stable) potential hazards/claims and no mass tort potential result in much less reserve estimate uncertainty than policies without those characteristics.

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

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

General liability risk factors
Changes in claim handling philosophies
Changes in policy provisions or court interpretation of such provisions
New theories of liability
Trends in jury awards
Changes in the propensity to sue, in general with specificity to particular issues
Changes in statutes of limitations
Changes in the underlying court system
Distortions from losses resulting from large single accounts or single issues
Changes in tort law
Shifts in law suit mix between federal and state courts
Changes in claim adjuster office structure (causing distortions in the data)
Changes in settlement patterns (e.g., medical malpractice)

General liability book of business risk factors
Changes in policy provisions (e.g., deductibles, policy limits, endorsements)
Changes in underwriting standards
Product mix (e.g., size of account, industries insured, jurisdiction mix)

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

Historically, the one-year change in the reserve estimate for this product line, excluding estimated asbestos and environmental amounts, over the last nine years has varied from -5% to 14% (averaging 5%) for the Company and from -3% to 7% (averaging 2%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. Because the high end of the Company's range of historical adverse development comes from certain businesses that the Company has since exited, the Company believes that the industry's range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. General liability reserves (excluding asbestos and environmental) represent approximately 28% of the Company's total loss reserves.

Table of Contents

The Company's change in reserve estimate for this product line, excluding estimated asbestos and environmental amounts, was -5% for 2008, -2% for 2007 and +2% for 2006. The 2008 change primarily reflected significant favorable prior year reserve development, driven by several factors, including improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The 2007 change was driven by better than expected loss development for recent accident years attributable to several factors, including improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The 2006 change largely resulted from directors and officers and errors and omissions adjustments due to worse than expected large loss activity and additional information from detailed claim reviews, primarily associated with accident years 2002 and 2003.

Property

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

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

Property risk factors
Physical concentration of policyholders
Availability and cost of local contractors
For the more severe catastrophic events, "demand surge" inflation, which refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services
Local building codes
Amount of time to return property to full usage (for business interruption claims)
Court interpretation of policy provisions (such as occurrence definition, or wind versus flooding)
Lags in reporting claims (e.g., winter damage to summer homes, hidden damage after an earthquake)
Court or legislative changes to the statute of limitations

Property book of business risk factors
Policy provisions mix (e.g., deductibles, policy limits, endorsements)
Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for property, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in loss reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from -34% to 26% (averaging -6%) for the Company, and from -14% to 7% (averaging -2%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. Because the high end of the Company's range of historical adverse development comes from certain businesses that the Company has since exited, the Company believes that the industry's range of historical outcomes is illustrative of reasonably possible one-year

Table of Contents

changes in reserve estimates for this product line. Property reserves represent approximately 4% of the Company's total loss reserves.

While property is considered a short tail coverage, the one year change for property can be more volatile than that for the longer tail product lines. This is due to the fact that the majority of the reserve for property relates to the most recent accident year, which is subject to the most uncertainty for all product lines. This recent accident year uncertainty is relevant to property because of weather related events which tend to be concentrated in the second half of the year, and generally are not completely resolved until the following year. Reserve estimates associated with major catastrophes may take even longer to resolve. The reserve estimates for this product line are also potentially subject to material changes due to uncertainty in measuring ultimate losses for unprecedented significant catastrophes such as the events of September 11, 2001 and Hurricane Katrina.

The Company's change in reserve estimate for this product line was -22% for 2008, -18% for 2007 and -11% for 2006. The 2008 change was primarily driven by favorable development in the 2007 accident year for certain large property, ocean marine and inland marine claim exposures, and improvements in the litigation environment relating to, and ongoing claim settlements for, Hurricane Katrina. The 2007 change was due to fewer than expected late reported claims related to non-catastrophe weather events that occurred late in 2006 as well as better than expected frequency and severity due in part to changes in the marketplace, such as higher deductibles and lower policy limits. In addition, the property product line experienced better than expected large loss outcomes which were partially attributable to favorable litigation resolutions. The 2006 change primarily reflected less "demand surge" inflation than originally estimated for 2005 accident year non-catastrophe and catastrophe losses.

Commercial Multi-Peril

Commercial multi-peril provides a combination of property and liability coverage typically for small businesses and, therefore, includes both short and long tail coverages. For property coverage, it generally takes a relatively short period of time to close claims, while for the other coverages, generally for the liability coverages, it takes a longer period of time to close claims.

The reserving risk for this line is dominated by the liability coverage portion of this product, except occasionally in the event of catastrophic or large single losses. The reserving risk for this line differs from that of the general liability product line and the property product line due to the nature of the customer. Commercial multi-peril is generally sold to smaller-sized accounts, while the customer profile for general liability and property includes larger customers.

See "Property risk factors" and "General liability risk factors," discussed above, with regard to reserving risk for commercial multi-peril.

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for commercial multi-peril (excluding asbestos and environmental), a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.2% increase (decrease) in loss reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from -16% to 2% (averaging -5%) for the Company, and from -3% to 6% (averaging 2%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Commercial multi-peril reserves (excluding asbestos and environmental reserves) represent approximately 7% of the Company's total loss reserves.

Table of Contents

As discussed above, this line combines general liability and property coverages and it has been impacted in the past by many of the same events as those two lines.

The Company's change in reserve estimate for this product line was -16% for 2008, -8% for 2007 and -4% for 2006. The 2008 change was attributable to several factors, including improved legal and judicial environments, and enhanced risk control, underwriting and claim process initiatives. Also contributing to the change was improvement in the litigation environment relating to, and ongoing claim settlements for, Hurricane Katrina. The 2007 and 2006 changes were attributable to better than expected results due to, among other factors, increasingly favorable legal and judicial environments as well as enhanced risk control, underwriting and claim process initiatives.

Commercial Automobile

The commercial automobile product line is a mix of property and liability coverages and, therefore, includes both short and long tail coverages. The payments that are made quickly typically pertain to auto physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. In general, claim reporting lags are minor, claim complexity is not a major issue, and the line is viewed as high frequency, low to moderate severity. Overall, the claim liabilities for this line create a moderate estimation risk.

Commercial automobile reserves are typically analyzed in four components: bodily injury liability; property damage liability; collision claims; and comprehensive claims. These last two components have minimum reserve risk and fast payouts and, accordingly, separate risk factors are not presented.

The Company utilizes the traditional actuarial methods mentioned in the general discussion above in estimating claim liabilities for this line. This is supplemented with detailed custom analyses where needed.

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

Bodily injury and property damage liability risk factors
Trends in jury awards
Changes in the underlying court system
Changes in case law
Litigation trends
Frequency of claims with payment capped by policy limits
Change in average severity of accidents, or proportion of severe accidents
Changes in auto safety technology
Subrogation opportunities
Changes in claim handling philosophies
Frequency of visits to health providers
Number of medical procedures given during visits to health providers
Types of health providers used
Types of medical treatments received
Changes in cost of medical treatments
Degree of patient responsiveness to treatment

Commercial automobile book of business risk factors
Changes in policy provisions (e.g., deductibles, policy limits, endorsements, etc.)
Changes in mix of insured vehicles (e.g., long haul trucks versus local and smaller vehicles, fleet risks versus non-fleets)
Changes in underwriting standards

Table of Contents

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for commercial automobile, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.2% increase (decrease) in loss reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from -10% to 9% (averaging -1%) for the Company, and from -3% to 9% (averaging 2%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Commercial automobile reserves represent approximately 7% of the Company's total loss reserves.

The Company's change in reserve estimate for this product line was -7% for 2008, -10% for 2007 and -7% for 2006. The 2008 change was a result of better than expected loss development, primarily for accident years 2005 through 2007, which was attributable to several factors, including improved legal and judicial environments, and enhanced risk control, underwriting and claim process initiatives. The 2007 change was due to better than expected loss development, for recent accident years, as a result of more favorable legal and judicial environments, claim handling initiatives and improvements in auto safety technology. The 2006 change was due to better than expected loss development, primarily for accident years 2003 through 2005, which was attributable to favorable legal and judicial environments, claim handling initiatives and improvements in auto safety technology.

Workers' Compensation

Workers' compensation is generally considered a long tail coverage, as it takes a relatively long period of time to finalize claims from a given accident year. While certain payments such as initial medical treatment or temporary wage replacement for the injured worker are made quickly, some other payments are made over the course of several years, such as awards for permanent partial injuries. In addition, some payments can run as long as the injured worker's life, such as permanent disability benefits and on-going medical care. Despite the possibility of long payment tails, the reporting lags are generally short, settlements are generally not complex, and most of the liability can be considered high frequency with moderate severity. The largest reserve risk generally comes from the low frequency, high severity claims providing lifetime coverage for medical expense arising from a worker's injury. Overall, the claim liabilities for this line create a somewhat greater than moderate estimation risk.

Workers' compensation reserves are typically analyzed in three components: indemnity losses, medical losses and claim adjustment expenses.

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

Indemnity risk factors
Time required to recover from the injury
Degree of available transitional jobs
Degree of legal involvement
Changes in the interpretations and processes of the workers' compensation commissions' oversight of claims(1)
Future wage inflation for states that index benefits
Changes in the administrative policies of second injury funds

(1) These are administrative bodies that evaluate whether or not a given claim for workers' compensation benefits is valid. Their duties include the determination of whether a given injury arose out of the scope of employment or the determination of the degree of injury where disputes exist.

Table of Contents

Medical risk factors
Changes in the cost of medical treatments (including prescription drugs) and underlying fee schedules ("inflation")
Frequency of visits to health providers
Number of medical procedures given during visits to health providers
Types of health providers used
Type of medical treatments received
Use of preferred provider networks and other medical cost containment practices
Availability of new medical processes and equipment
Changes in the use of pharmaceutical drugs
Degree of patient responsiveness to treatment

General workers' compensation risk factors
Frequency of claim reopenings on claims previously closed
Mortality trends of injured workers with lifetime benefits and medical treatment
Degree of cost shifting between workers' compensation and health insurance

Workers' compensation book of business risk factors
Product mix
Injury type mix
Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for workers' compensation, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.3% increase (decrease) in loss reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from -2% to 2% (averaging 0%) for the Company, and from -1% to 4% (averaging 1%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Workers' compensation reserves represent approximately 30% of the Company's total loss reserves.

The Company's change in reserve estimate for this product line was 1% for 2008, and 0% for 2007 and 2006. The 2008 change was primarily driven by higher than anticipated medical costs related to claims from older accident years.

Fidelity and Surety

Fidelity is generally considered a short tail coverage. It takes a relatively short period of time to finalize and settle fidelity claims. The volatility of fidelity reserves is generally related to the type of business of the insured, the size and complexity of the insured's business operations, amount of policy limit and attachment point of coverage. The uncertainty surrounding reserves for small, commercial insureds is typically less than the uncertainty for large commercial or financial institutions. The high frequency, low severity nature of small commercial fidelity losses provides for stability in loss estimates whereas, the low frequency, high severity nature of losses for large insureds results in a wider range of ultimate loss outcomes. Actuarial techniques that rely on a stable pattern of loss development are generally not applicable to low frequency, high severity policies.

Surety has certain components that are generally considered short tail coverages with short reporting lags, although large individual construction and commercial surety contracts can result in a long settlement tail, based on the length and complexity of the construction project or commercial transaction being insured. (Large construction projects can take many years to complete.) The

Table of Contents

frequency of losses in surety correlates with economic cycles as the primary cause of surety loss is the inability to perform financially. The volatility of surety losses is generally related to the type of business performed by the insured, the type of bonded obligation, the amount of limit exposed to loss and the amount of assets available to the insurer to mitigate losses, such as unbilled contract funds, collateral, first and third party indemnity, and other security positions of an insured's assets. Certain classes of surety claims are very high severity, low frequency in nature. These can include large construction contractors involved with one or multiple large, complex projects as well as certain large commercial surety exposures. Other claim factors affecting reserve variability of surety include litigation related to amounts owed by and due the insured (e.g., salvage and subrogation efforts) and the results of financial restructuring of an insured.

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

Fidelity risk factors
Type of business of insured
Policy limit and attachment points
Third-party claims
Coverage litigation
Complexity of claims
Growth in insureds' operations

Surety risk factors
Economic trends, including the general level of construction activity
Concentration of reserves in a relatively few large claims
Type of business insured
Type of obligation insured
Cumulative limits of liability for insured
Assets available to mitigate loss
Defective workmanship/latent defects
Financial strategy of insured
Changes in statutory obligations
Geographic spread of business

Fidelity and Surety book of business risk factors
Changes in policy provisions (e.g., deductibles, limits, endorsements)
Changes in underwriting standards

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for fidelity and surety, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.4% increase (decrease) in loss reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from -10% to 138% (averaging 21%) for the Company, and from -11% to 24% (averaging 6%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. Because the high end of the Company's range was due to acquired business in 2004, the Company believes that the industry's range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Fidelity and surety reserves represent approximately 3% of the Company's total loss reserves.

In general, developments on single large claims (both adverse and favorable) are a primary source of changes in reserve estimates for this product line.

Table of Contents

The Company's change in reserve estimate for this product line was -10% for 2008, -1% for 2007 and -5% for 2006. The 2008 change was a result of better than expected loss experience for the contract surety business within this product line, primarily driven by favorable settlements on large claims from older accident years. The 2006 change was due to better than expected large loss activity.

Personal Automobile

Personal automobile includes both short and long tail coverages. The payments that are made quickly typically pertain to auto physical damage (property) claims and property damage (liability) claims. The payments that take longer to finalize and are more difficult to estimate relate to bodily injury claims. Reporting lags are relatively short and the claim settlement process for personal automobile liability generally is the least complex of the liability products. It is generally viewed as a high frequency, low to moderate severity product line. Overall, the claim liabilities for this line create a moderate estimation risk.

Personal automobile reserves are typically analyzed in five components: bodily injury liability, property damage liability, no-fault losses, collision claims and comprehensive claims. These last two components have minimum reserve risk and fast payouts and, accordingly, separate factors are not presented.

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

Bodily injury and property damage liability risk factors
Trends in jury awards
Changes in the underlying court system and its philosophy
Changes in case law
Litigation trends
Frequency of claims with payment capped by policy limits
Change in average severity of accidents, or proportion of severe accidents
Subrogation opportunities
Degree of patient responsiveness to treatment
Changes in claim handling philosophies

No-fault risk factors (for selected states and time periods)
Effectiveness of no-fault laws
Frequency of visits to health providers
Number of medical procedures given during visits to health providers
Types of health providers used
Types of medical treatments received
Changes in cost of medical treatments
Degree of patient responsiveness to treatment

Personal automobile book of business risk factors
Changes in policy provisions (e.g., deductibles, policy limits, endorsements, etc.)
Changes in underwriting standards
Changes in the use of credit data for rating and underwriting

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for personal automobile, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in loss reserves.

Table of Contents

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from -9% to 1% (averaging -4%) for the Company, and from -4% to 0% (averaging -2%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Personal automobile reserves represent approximately 5% of the Company's total loss reserves.

The Company's change in reserve estimate for this product line was -1% for 2008, -5% for 2007 and -7% for 2006. The decreases in 2008, 2007 and 2006 were primarily due to better than expected results from changes in claim handling practices as well as initiatives to fight fraud.

Homeowners and Personal Lines Other

Homeowners is generally considered a short tail coverage. Most payments are related to the property portion of the policy, where the claim reporting and settlement process is generally restricted to the insured and the insurer. Claims on property coverage are typically reported soon after the actual damage occurs, although delays of several months are not unusual. The claim is settled when the two parties agree on the amount due in accordance with the policy contract language and the appropriate payment is made (or alternatively, the property replacement/repair is performed by the insurer). The resulting settlement process is typically fairly short term, although exceptions do exist.

The liability portion of the homeowners policy generates claims which take longer to pay due to the involvement of litigation and negotiation, but with generally small reporting lags. In addition, reserves related to umbrella coverages have greater uncertainty since umbrella liability payments are often made far into the future.

Overall, the line is generally high frequency, low to moderate severity (except for catastrophes), with simple to moderate claim complexity.

Homeowners reserves are typically analyzed in two components: non-catastrophe related losses and catastrophe loss payments.

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

Non-catastrophe risk factors
Salvage opportunities
Amount of time to return property to residential use
Changes in weather patterns
Local building codes
Litigation trends
Trends in jury awards

Catastrophe risk factors
Physical concentration of policyholders
Availability and cost of local contractors
Local building codes
Quality of construction of damaged homes
Amount of time to return property to residential use
For the more severe catastrophic events, "demand surge" inflation, which refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services

Table of Contents

Homeowners book of business risk factors
Policy provisions mix (e.g., deductibles, policy limits, endorsements, etc.)
Degree of concentration of policyholders
Changes in underwriting standards
Changes in the use of credit data for rating and underwriting

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for homeowners and personal lines other, a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.1% increase (decrease) in loss reserves.

Historically, the one-year change in the reserve estimate for this product line over the last nine years has varied from -31% to 3% (averaging -11%) for the Company, and from -8% to 11% (averaging -2%) for the industry overall. The Company's year-to-year changes are driven by, and are based on, observed events during the year. The Company believes that its range of historical outcomes is illustrative of reasonably possible one-year changes in reserve estimates for this product line. Homeowners and personal lines other reserves represent approximately 3% of the Company's total loss reserves.

This line combines both liability and property coverages; however, the majority of the reserves relate to property. While property is considered a short tail coverage, the one year change for property can be more volatile than that for the longer tail product lines. This is due to the fact that the majority of the reserve for property relates to the most recent accident year, which is subject to the most uncertainty for all product lines. This recent accident year uncertainty is relevant to property because of weather related events which tend to be concentrated in the second half of the year, and generally are not completely resolved until the following year. Reserve estimates associated with major catastrophes may take even longer to resolve.

The Company's change in reserve estimate for this product line was -13% for 2008, -3% for 2007 and -22% for 2006. The 2008 change was primarily driven by favorable loss experience related to Hurricane Katrina, by claim initiatives, by better than expected outcomes on 2007 catastrophe-related claims and by improvements in older accident years for the umbrella line. The 2007 change was due to fewer than expected late reported claims related to non-catastrophe weather events that occurred in the fourth quarter of 2006. In addition, a portion of the change was attributable to a decrease in the number of claims due to changes in the marketplace, including higher deductibles and fewer small-dollar claims. The 2006 change was due to lower than expected additional living expenses related to Hurricane Katrina as well as better than expected non-catastrophe related frequency and severity, due in part to changes in the marketplace, such as higher deductibles and fewer small-dollar claims, and continued evidence of a less than expected impact from demand surge.

International and other

International and other includes products written by International and other products not discussed above. The principal component of "other" claim reserves is assumed reinsurance written on an excess-of-loss basis, which may include reinsurance of non-U.S. exposures, and is runoff business.

International and other claim liabilities result from a mix of coverages, currencies and jurisdictions/countries. The common characteristic is the need to customize the analysis to the individual component, and the inability to rely on data characterizations and reporting requirements in the U.S. statutory reporting framework.

Due to changes in the business mix for this line over time, the recently incurred claim liabilities are relatively short term (due to both the products and the jurisdictions involved, e.g., the Republic of Ireland and the United Kingdom), while the older liabilities include some from runoff operations that

Table of Contents

are extremely long tail (e.g., U.S. excess liabilities reinsured through the London market, and several underwriting pools in runoff). The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction, the distribution system (e.g., underwriting pool versus direct) and the proximity of the insurance sale to the insured hazard (e.g., insured and insurer located in different countries). In particular, liabilities arising from the underwriting pools in runoff may result in significant reporting lags, settlement lags and claim complexity, due to the need to coordinate with other pool members or co-insurers through a broker or lead-insurer for claim settlement purposes.

International and other reserves are generally analyzed by program/pool, country and general coverage category (e.g., U.S. Liability excess of loss reinsurance, or General Liability Municipalities by country). The business is also generally split by direct versus assumed reinsurance for a given coverage/jurisdiction. Where the underlying insured hazard is outside the United States, the underlying coverages are generally similar to those described under the General Liability and Automobile discussion above, but under a different legal system. Where the underlying hazard is within the U.S., the coverage involved is typically that of General Liability, but on an excess or excess-of-loss reinsurance basis. Excess exposure requires the insured to "prove" not only claims under the policy, but also the prior payment of claims reaching up to the excess policy's attachment point.

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

International and other risk factors
Changes in claim handling procedures, including those of the primary carriers
Changes in policy provisions or court interpretation of such provision
New theories of liability
Trends in jury awards
Changes in the propensity to sue
Changes in statutes of limitations
Changes in the underlying court system
Distortions from losses resulting from large single accounts or single issues
Changes in tort law
Changes in claim adjuster office structure (causing distortions in the data)

International and other book of business risk factors
Changes in policy provisions (e.g., deductibles, policy limits, endorsements, "claims-made" language)
Changes in underwriting standards
Product mix (e.g., size of account, industries insured, jurisdiction mix)

Unanticipated changes in risk factors can affect reserves. As an indicator of the causal effect that a change in one or more risk factors could have on reserves for International and other (excluding asbestos and environmental), a 1% increase (decrease) in incremental paid loss development for each future calendar year could result in a 1.3% increase (decrease) in loss reserves. International and other reserves (excluding asbestos and environmental) represent approximately 7% of the Company's total loss reserves.

International and other represents a combination of different product lines, some of which are in runoff. Comparative historical information is not available for international product lines as insurers domiciled outside of the U.S. do not file U.S. statutory reports. Comparative historical information on runoff business is not indicative of reasonably possible one-year changes in the reserve estimate for this mix of runoff business. Accordingly, the Company has not included comparative analyses for International and other.

Table of Contents

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated claim liability. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. In addition, in the ordinary course of business, the Company becomes involved in coverage disputes with its reinsurers. Some of these disputes could result in lawsuits and arbitrations brought by or against the reinsurers to determine the Company's rights and obligations under the various reinsurance agreements. The Company employs dedicated specialists and aggressive strategies to manage reinsurance collections and disputes.

The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. From time to time, as a result of the long-tailed nature of the underlying liabilities, coverage complexities and potential for disputes, the Company considers the commutation of reinsurance contracts. Changes in estimated reinsurance recoverables and commutation activity could result in additional income statement charges. Total reinsurance recoverables at December 31, 2008 declined by $1.41 billion from the same date in 2007, primarily reflecting the sale of Unionamerica, various commutation agreements and collections on reinsurance recoverables, including those related to prior year hurricane losses. The allowance for uncollectible reinsurance at December 31, 2008 declined by $70 million from the same date in 2007, generally due to settlement activity and commutations.

Recoverables attributable to structured settlements relate primarily to personal injury claims, of which workers' compensation claims comprise a significant portion, for which the Company has purchased annuities and remains contingently liable in the event of a default by the companies issuing the annuities. Recoverables attributable to mandatory pools and associations relate primarily to workers' compensation service business and have the obligation of the participating insurance companies on a joint and several basis supporting these cessions.

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

(at December 31, in millions)	2008	2007
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	**$ 9,376**	$ 10,731
Allowance for uncollectible reinsurance	**(618)**	(688)
Net reinsurance recoverables	**8,758**	10,043
Structured settlements	**3,517**	3,615
Mandatory pools and associations	**1,957**	1,983
Total reinsurance recoverables	**$ 14,232**	$ 15,641

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 FASB Statement No. 157, *Fair Value Measurements* (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

Table of Contents

valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use.

Valuation of Investments Reported at Fair Value in Financial Statements

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

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

Fixed Maturities

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

The pricing service evaluates each asset class based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing

Table of Contents

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

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

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

The Company 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 10%. The Company reviews the report and will challenge any prices deemed not to be representative of fair value. In addition, the Company has implemented various other processes including randomly selecting purchased or sold securities and comparing execution prices to the estimates from the pricing service as well as reviewing reports that contain securities whose valuation did not change from their previous valuation (stale price review). These processes were implemented in mid-2007 and have not highlighted any significant issues with the fair value estimates received from the pricing service.

During the fourth quarter of 2008, the Company began using additional independent pricing services to further test the primary pricing service's valuation of the Company's fixed maturity portfolio, and will continue to use such additional pricing services in future quarters. Using certain month-end data from October and November 2008, the secondary pricing services provided fair value estimates on approximately 98% of the fixed maturity portfolio, and those estimates, in the aggregate, were not materially different than the estimated fair value provided by the Company's primary pricing service.

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

Table of Contents

maker). Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

Equities Public Common and Preferred

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

Other Investments

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

The Company holds investments in venture capital investments and non-public common and preferred stocks, with a fair value estimate of $224 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 shares of common stock of one private company with a fair value estimate of $162 million at December 31, 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 transfer restrictions 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 December 31, 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 in a liability position of approximately $2 million at December 31, 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 $87 million at December 31, 2008 in the amount disclosed in Level 3 other investments. The Company separately values the embedded conversion options based on observable market inputs and includes the estimate of fair value in Level 2.

Valuation of Investments Not Reported at Fair Value in Financial Statements

Short-term Securities

The Company's short-term investments consist mainly of high-quality commercial paper (primarily A1/P1) with an average of 39 days to maturity at December 31, 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.

Table of Contents

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, hedge funds, real estate partnerships (together, partnerships), joint ventures, and mortgage loans. The Company uses the equity method of accounting for its investments in partnerships and joint ventures, and amortized cost is used for mortgage loans.

The partnerships generally report investments on their balance sheet at fair value. The financial statements prepared by the investee are received by the Company on a lag basis, with the lag period generally dependent upon the type of underlying investments. The private equity partnerships and real estate partnerships provide financial information quarterly which is generally available to investors, including the Company, within three to six months following the date of the reporting period. The hedge funds provide financial information monthly, which is generally available to investors within one month following the date of the reporting period. The Company regularly requests financial information from the partnerships prior to the receipt of the partnerships' financial statements, and records any material information obtained from these requests in the financial statements.

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 for fixed maturity securities, or cost for equity securities; (3) the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities; and (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 amounts accreted to the expected recovery amount, are recognized at disposition. Due to the subjective nature of the Company's analysis and estimates of fair value, along with the judgment that must be applied in the analysis, it is possible that the Company could reach a different conclusion whether or not to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods.

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.

Table of Contents

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

- Identification and evaluation of investments that have possible indications of other-than-temporary impairment, which includes an analysis of all investments with gross unrealized investment losses that have fair values less than 80% of cost;

- Review and evaluation of external and internal portfolio managers' recommendations for other-than-temporary impairments of any other investments based on the investee's current financial condition, liquidity, near-term recovery prospects, the outlook for the business sectors in which the investee operates and other factors (in addition to reviewing investments with an estimated fair value of less than 80% of cost);

- Consideration of evidential matter, including an evaluation of factors or triggers that may or may not cause individual investments to qualify as having other-than-temporary impairments; and

- Determination of the status of each analyzed investment as other-than-temporary or not, with documentation of the rationale for the decision.

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 an individual subsidiary's liquidity needs, or changes in tax laws or the regulatory environment.

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, the Company does not have the intent to hold the security, or the Company does not expect to recover its cost over a forecasted recovery period. Additionally, for certain securitized financial assets with contractual cash flows (including asset-backed securities), the Company updates its estimate of the present value of expected cash flows over the life of the security on a quarterly basis. If management determines that the fair value of the securitized financial asset and the present value of the asset's cash flows estimated at the current financial reporting date are less than the present value of the estimated cash flows at the date of purchase (or previous financial reporting date), then an other-than-temporary impairment is recognized and the securitized financial asset is written down to fair value. Equity securities are other-than-temporarily impaired when it becomes apparent that the Company will not recover its cost over a forecasted recovery period.

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. For public securities managed by external managers, the Company cannot assert the intent and ability to hold the securities to recovery and therefore considers the securities impaired when the fair value is below the cost basis at the end of the reporting period.

Table of Contents

Real Estate Investments

On at least an annual basis, the Company obtains independent appraisals for substantially all of its real estate investments. In addition, the carrying value of 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 considers the valuation from the independent appraisal, when applicable, and incorporates 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.

Other Investments

Mortgage Loans

A mortgage loan is considered impaired when it is probable that the Company will be unable to collect principal and interest amounts due. For mortgage loans that are determined to be impaired, a reserve is established for the difference between the amortized cost and the fair market value of the underlying collateral. In estimating fair value, the Company uses interest rates reflecting the current real estate financing market returns. The Company did not have any impaired mortgage loans at December 31, 2008 and 2007.

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

Externally managed venture capital investments and non-public common and preferred equity securities are reviewed quarterly for other-than-temporary impairment by the external fund manager and the Company's portfolio managers. Internally managed venture capital investments and non-public and preferred equity securities are reviewed quarterly by the Company's portfolio managers. The Company's portfolio managers and the external fund manager review and consider a variety of factors in determining the valuation of the investments and the potential for other-than-temporary impairments. Factors considered include the following:

- The investee's most recent financing events;
- An analysis of whether a fundamental deterioration or improvement has occurred;
- Whether the investee's progress has been substantially more or less than expected;
- Whether or not the valuations have improved or declined significantly in the investee's market sector;
- Whether or not the external fund manager and the Company believe it is probable that the investee will need financing within six months at a lower price than the Company's carrying value; and
- Whether or not the Company has the ability and intent to hold the investment for a period of time sufficient to allow for recovery, enabling the Company to receive value equal to or greater than its cost.

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 its cost of an individual holding. The quarterly valuation procedures described above are in addition to the portfolio managers' ongoing responsibility to frequently monitor developments affecting those invested assets, paying particular attention to events that might give rise to impairment write-downs.

Table of Contents

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

Included in other investments are private equity limited partnerships, investments in hedge funds and real estate partnerships that generally report investments on their balance sheet at fair value and are accounted for by the Company using the equity method of accounting. 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 impairment of a partnership's investments at the balance sheet date prior to receiving the partnership's financial statements, it will recognize an impairment by recording a reduction in the carrying value of the partnership with a corresponding charge to net investment income.

Goodwill and Other Intangible Assets Impairments

The Company performs a review, on at least an annual basis, of goodwill held by the reporting units which are the Company's three operating and reportable segments: Business Insurance, Financial, Professional & International Insurance, and Personal Insurance. The Company estimates the fair value of its reporting units and compares it to their carrying value, including goodwill. If the carrying values of the reporting units exceed their fair value, the amount of the impairment is calculated and goodwill is adjusted accordingly.

In 2008, the Company changed its methodology for estimating the fair value of its reporting units from a multiple of earnings model to a discounted cash flow model. This change was made as a result of the effects of a severe disruption of the credit and equity markets and significant changes in the insurance industry that caused disparities between the multiple of earnings of the Company and the observed multiple of earnings of its competitors. The discounted cash flow model is an income approach to valuation that is based on a more detailed analysis for deriving a current fair value of reporting units and is more representative of the Company's current and expected future financial performance. The discounted cash flow model relies on the Company's assumptions of its future operating earnings, discounted utilizing an estimate of the Company's cost of equity. Other indefinite-lived intangible assets held by the Company are also reviewed for impairment on at least an annual basis. The classification of the asset as indefinite-lived is reassessed, and an impairment is recognized if the carrying amount of the asset exceeds its fair value.

Intangible assets that are deemed to have finite useful life are amortized over their useful lives. The carrying amount of intangible assets with a finite useful life is regularly reviewed for indicators of impairment in value. Impairment is recognized only if the carrying amount of the intangible asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the fair value of the asset.

The Company's review did not result in an impairment of its indefinite-lived or finite-lived intangible assets for the years ended December 31, 2008, 2007 and 2006.

OTHER UNCERTAINTIES

For a discussion of other risks and uncertainties that could impact the Company's results of operations or financial position, see note 15 of notes to the Company's consolidated financial statements and "Item 1A Risk Factors."

FUTURE APPLICATION OF ACCOUNTING STANDARDS

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

Table of Contents

The Company is currently required to prepare its financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP), as promulgated by the Financial Accounting Standards Board (FASB). During 2008, the Securities and Exchange Commission (SEC) issued a proposed Roadmap for comment for the potential use in filings with the SEC of financial statements for U.S. issuers prepared in accordance with International Financial Reporting Standards (IFRS), as promulgated by the International Accounting Standards Board (IASB), instead of in accordance with GAAP. The Roadmap contains milestones that, if achieved, may lead the SEC to decide in 2011 to require the use of IFRS for large accelerated filers, including the Company, in 2014. The SEC also is proposing to permit U.S. companies to elect to file using IFRS, as adopted by the IASB, as early as 2010, if the company is in an industry group that reports using IFRS more commonly than any other set of standards, and if the company is one of the 20 largest companies in the industry worldwide based on market capitalization. The IASB and the FASB are in the process of developing a global insurance standard that may involve methodologies for valuing insurance contract liabilities that may be significantly different from the methodologies required by current GAAP. The FASB and the IASB are also embarked on a long-term project to converge GAAP and IFRS. The Company is not able to predict whether it will choose to, or be required to, adopt IFRS or how the adoption of IFRS (or the convergence of GAAP and IFRS) may impact the Company's financial statements in the future.

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, 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 the Company's 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.

For a discussion of some of the factors that could cause actual results to differ, see "Item 1A Risk Factors". and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates."

The Company's forward-looking statements speak only as of the date of this report or as of the date they are made, and the Company undertakes no obligation to update its forward-looking statements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates (inclusive of credit spreads), foreign currency exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The following is a discussion of the Company's primary market risk exposures and how those exposures are managed as of December 31, 2008. The Company's

Table of Contents

market risk sensitive instruments, including derivatives, are primarily entered into for purposes other than trading.

The carrying value of the Company's investment portfolio as of December 31, 2008 and 2007 was $70.74 billion and $74.82 billion, respectively, of which 87% was invested in fixed maturity securities at both dates. At December 31, 2008 and 2007, approximately 5.5% and 6.5%, respectively, of the Company's invested assets were denominated in foreign currencies. The Company's exposure to equity price risk is not significant. The Company has no direct commodity risk and is not a party to any credit default swaps.

The Company's fixed maturity investment portfolio at December 31, 2008 and 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 $206 million and $286 million, respectively (comprising approximately 0.3% and 0.4% of the Company's total fixed maturity investments, respectively). 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 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 "Aa2" and "Aaa" at December 31, 2008 and 2007, respectively. Approximately $81 million of asset-backed securities collateralized by sub-prime and alternative documentation mortgages were downgraded in 2008.

The Company's fixed maturity investment portfolio at December 31, 2008 included securities issued by numerous states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio), 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 bond portfolio, approximately 99% were rated at A3 or above, and approximately 81% were rated at Aa3 or above, without the benefit of insurance. If economic conditions continue to deteriorate and adversely impact the financial condition and/or revenues of states, municipalities and political subdivisions, the value of the Company's holdings could be adversely impacted. However, the Company believes, based on current market conditions, 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 December 31, 2008. The average credit rating of the entire municipal bond portfolio was "Aa1" at December 31, 2008 with and without the third-party insurance and includes pre-funded and escrowed to maturity securities, as well as securities issued without third-party insurance.

The primary market risk to the investment portfolio is interest rate and credit risk associated with investments in fixed maturity securities. The portfolio duration relative to the liabilities' duration is primarily managed through cash market transactions and treasury futures transactions.

The Company's tax-exempt fixed maturity investment portfolio totaled $38.79 billion and $38.55 billion at December 31, 2008 and 2007, respectively. Federal and/or state tax legislation could be

Table of Contents

enacted that would lessen or improve some or all of the tax advantages currently benefiting the Company and result in an adverse or favorable impact on the value of these holdings.

The primary market risk for all of the Company's debt is interest rate risk at the time of refinancing. The Company monitors the interest rate environment and evaluates refinancing opportunities as maturity dates approach. For additional information regarding the Company's debt see note 8 of notes to the Company's consolidated financial statements as well as the "Liquidity and Capital Resources" section of "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company's foreign exchange market risk exposure is concentrated in the Company's invested assets and insurance reserves denominated in foreign currencies. Cash flows from the Company's foreign operations are the primary source of funds for the purchase of investments denominated in foreign currencies. The Company purchases these investments primarily to fund insurance reserves and other liabilities denominated in the same currency, effectively reducing its foreign currency exchange rate exposure. Invested assets denominated in the British Pound Sterling comprised approximately 2.3% and 2.9% of the total invested assets at December 31, 2008 and 2007, respectively. No other individual foreign currency accounted for more than 2.2% of the Company's invested assets at December 31, 2008 or 2007.

There were no other significant changes in the Company's primary market risk exposures or in how those exposures were managed for the year ended December 31, 2008 compared to the year ended December 31, 2007. The Company does not currently anticipate significant changes in its primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

SENSITIVITY ANALYSIS

Sensitivity analysis is defined as the measurement of potential loss in future earnings, fair values or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected period of time. In the Company's sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible near-term changes in those rates. "Near-term" means a period of time going forward up to one year from the date of the consolidated financial statements. Actual results may differ from the hypothetical change in market rates assumed in this disclosure, especially since this sensitivity analysis does not reflect the results of any actions that would be taken by the Company to mitigate such hypothetical losses in fair value.

Interest Rate Risk

In this sensitivity analysis model, the Company uses fair values to measure its potential loss. The sensitivity analysis model includes the following financial instruments entered into for purposes other than trading: fixed maturities, non-redeemable preferred stocks, mortgage loans, short-term securities, debt and derivative financial instruments. The primary market risk to the Company's market sensitive instruments is interest rate risk (inclusive of credit spreads). The sensitivity analysis model uses a 100 basis point change in interest rates to measure the hypothetical change in fair value of financial instruments included in the model.

For invested assets with primary exposure to interest rate risk, estimates of portfolio duration and convexity are used to model the loss of fair value that would be expected to result from a parallel increase in interest rates. Durations on invested assets are adjusted for call, put and interest rate reset features. Durations on tax-exempt securities are adjusted for the fact that the yields on such securities do not normally move in lockstep with changes in the U.S. Treasury curve. Fixed maturity portfolio

Table of Contents

durations are calculated on a market value weighted basis, including accrued interest, using holdings as of December 31, 2008 and 2007.

For debt, the change in fair value is determined by calculating hypothetical December 31, 2008 and 2007 ending prices based on yields adjusted to reflect a 100 basis point change, comparing such hypothetical ending prices to actual ending prices, and multiplying the difference by the par or securities outstanding.

The sensitivity analysis model used by the Company produces a loss in fair value of market sensitive instruments of approximately $2.5 billion based on a 100 basis point increase in interest rates as of both December 31, 2008 and 2007.

The loss estimates do not take into account the impact of possible interventions that the Company might reasonably undertake in order to mitigate or avoid losses that would result from emerging interest rate trends. In addition, the loss value only reflects the impact of an interest rate increase on the fair value of the Company's financial instruments. As a result, the loss value excludes a significant portion of the Company's consolidated balance sheet, primarily claims and claim adjustment expense reserves, which if included in the sensitivity analysis model, would mitigate the impact of the loss in fair value associated with a 100 basis point increase in interest rates.

Foreign Currency Exchange Rate Risk

The Company uses fair values of investment securities to measure its potential loss from foreign denominated investments. A hypothetical 10% reduction in value of foreign denominated investments is used to estimate the impact on the market value of the foreign denominated holdings. The potential loss is reduced by foreign currency forward transactions that are used to hedge a portion of the Company's exposure to foreign currencies. The Company's analysis indicates that a hypothetical 10% reduction in the value of foreign denominated investments would be expected to produce a loss in fair value of approximately $386 million and $485 million at December 31, 2008 and 2007, respectively.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of The Travelers Companies, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Travelers Companies, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Travelers Companies, Inc. and subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 19, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP
Minneapolis, Minnesota
February 19, 2009

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share data)

For the year ended December 31,	2008	2007	2006
Revenues			
Premiums	**$ 21,579**	$ 21,470	$ 20,760
Net investment income	**2,792**	3,761	3,517
Fee income	**390**	508	591
Net realized investment gains (losses)	**(415)**	154	11
Other revenues	**131**	124	211
Total revenues	**24,477**	26,017	25,090
Claims and expenses			
Claims and claim adjustment expenses	**12,993**	12,397	12,244
Amortization of deferred acquisition costs	**3,880**	3,706	3,339
General and administrative expenses	**3,518**	3,352	3,458
Interest expense	**370**	346	324
Total claims and expenses	**20,761**	19,801	19,365
Income before income taxes	**3,716**	6,216	5,725
Income tax expense	**792**	1,615	1,517
Net income	**$ 2,924**	$ 4,601	$ 4,208
Net income per share			
Basic	**$ 4.90**	$ 7.04	$ 6.12
Diluted	**$ 4.82**	$ 6.86	$ 5.91
Weighted average number of common shares outstanding			
Basic	**596.4**	652.7	687.1
Diluted	**607.3**	672.3	716.7

See notes to consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

At December 31,	2008	2007
Assets		
Fixed maturities, available for sale at fair value (including $8 and $1,988 subject to securities lending) (amortized cost $61,569 and $64,152)	**$ 61,275**	$ 64,920
Equity securities, at fair value (cost $461 and $473)	**379**	488
Real estate	**827**	850
Short-term securities	**5,222**	5,186
Other investments	**3,035**	3,374
Total investments	**70,738**	74,818
Cash	**350**	271
Investment income accrued	**823**	861
Premiums receivable	**5,954**	6,142
Reinsurance recoverables	**14,232**	15,641
Ceded unearned premiums	**941**	1,123
Deferred acquisition costs	**1,774**	1,809
Deferred tax asset	**1,965**	1,207
Contractholder receivables	**6,350**	6,696
Goodwill	**3,366**	3,366
Other intangible assets	**688**	814
Other assets	**2,570**	2,476
Total assets	**$ 109,751**	$ 115,224
Liabilities		
Claims and claim adjustment expense reserves	**$ 54,723**	$ 57,700
Unearned premium reserves	**10,957**	11,227
Contractholder payables	**6,350**	6,696
Payables for reinsurance premiums	**528**	618
Debt	**6,181**	6,242
Other liabilities	**5,693**	6,125
Total liabilities	**84,432**	88,608
Shareholders' equity		
Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding at both dates)	**89**	112
Common stock (1,750.0 shares authorized; 585.1 and 627.8 shares issued and outstanding)	**19,242**	18,990
Retained earnings	**13,314**	11,110
Accumulated other changes in equity from nonowner sources	**(900)**	670
Treasury stock, at cost (128.8 and 82.9 shares)	**(6,426)**	(4,266)
Total shareholders' equity	**25,319**	26,616
Total liabilities and shareholders' equity	**$ 109,751**	$ 115,224

See notes to consolidated financial statements.

157

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions)

For the year ended December 31,	2008	2007	2006
Convertible preferred stock savings plan			
Balance, beginning of year	**$ 112**	$ 129	$ 153
Redemptions during year	**(23)**	(17)	(24)
Balance, end of year	**89**	112	129
Common stock			
Balance, beginning of year	**18,990**	18,530	18,096
Employee share-based compensation	**114**	260	260
Compensation amortization under share-based plans and other changes	**138**	164	174
Conversion of convertible notes		36	
Balance, end of year	**19,242**	18,990	18,530
Retained earnings			
Balance, beginning of year	**11,110**	7,253	3,750
Net income	**2,924**	4,601	4,208
Dividends	**(715)**	(742)	(701)
Other	**(5)**	(2)	(4)
Balance, end of year	**13,314**	11,110	7,253
Accumulated other changes in equity from nonowner sources, net of tax			
Balance, beginning of year	**670**	452	351
Change in net unrealized gain on investment securities	**(764)**	167	126
Net change in benefit plan assets and obligations recognized in equity	**(405)**	(50)	(80)
Net change in unrealized foreign currency translation and other changes	**(401)**	101	55
Balance, end of year	**(900)**	670	452
Treasury stock (at cost)			
Balance, beginning of year	**(4,266)**	(1,229)	(47)
Treasury shares acquired share repurchase authorization	**(2,122)**	(2,947)	(1,121)
Net shares acquired related to employee share-based compensation plans	**(38)**	(90)	(61)
Balance, end of year	**(6,426)**	(4,266)	(1,229)
Total common shareholders' equity	**25,230**	26,504	25,006
Total shareholders' equity	**$ 25,319**	$ 26,616	$ 25,135
Common shares outstanding			
Balance, beginning of year	**627.8**	678.3	693.4
Shares acquired share repurchase authorization	**(45.0)**	(56.0)	(22.8)
Net shares issued under employee share-based compensation plans	**2.3**	4.8	7.7

Shares issued pursuant to conversion of convertible notes				0.7		
Balance, end of year		**585.1**		627.8		678.3
Summary of changes in equity from nonowner sources						
Net income	**$**	**2,924**	$	4,601	$	4,208
Other changes in equity from nonowner sources, net of tax		**(1,570)**		218		181
Total changes in equity from nonowner sources	**$**	**1,354**	$	4,819	$	4,389

See notes to consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

For the year ended December 31,	**2008**	**2007**	**2006**
Cash flows from operating activities			
Net income	**$ 2,924**	$ 4,601	$ 4,208
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized investment (gains) losses	**415**	(154)	(11)
Depreciation and amortization	**821**	811	808
Deferred federal income tax expense (benefit)	**(58)**	230	521
Amortization of deferred acquisition costs	**3,880**	3,706	3,339
Equity in (income) loss from other investments	**312**	(570)	(478)
Premiums receivable	**166**	(4)	(57)
Reinsurance recoverables	**1,209**	2,172	1,998
Deferred acquisition costs	**(3,845)**	(3,925)	(3,427)
Claims and claim adjustment expense reserves	**(2,033)**	(1,410)	(2,565)
Unearned premium reserves	**(270)**	103	300
Trading account activities	**11**	(3)	6
Loss (gain) on redemption of subordinated debentures		32	(42)
Excess tax benefits from share-based payment arrangements	**(10)**	(25)	(16)
Other	**(384)**	(278)	190
Net cash provided by operating activities	**3,138**	5,286	4,774
Cash flows from investing activities			
Proceeds from maturities of fixed maturities	**4,869**	5,305	5,810
Proceeds from sales of investments:			
Fixed maturities	**6,932**	7,323	4,401
Equity securities	**53**	106	285
Real estate	**25**	11	
Other investments	**655**	1,460	1,111
Purchases of investments:			
Fixed maturities	**(11,127)**	(14,719)	(13,845)
Equity securities	**(95)**	(135)	(83)
Real estate	**(38)**	(74)	(75)
Other investments	**(667)**	(740)	(705)
Net (purchases) sales of short-term securities	**(406)**	(562)	(85)
Securities transactions in course of settlement	**(318)**	(123)	447
Other	**(45)**	(378)	(325)
Net cash used in investing activities	**(162)**	(2,526)	(3,064)
Cash flows from financing activities			
Issuance of debt	**496**	2,461	786
Payment of debt	**(552)**	(1,956)	(806)
Dividends paid to shareholders	**(715)**	(742)	(702)
Issuance of common stock employee share options	**89**	218	216
Treasury stock acquired share repurchase authorization	**(2,167)**	(2,920)	(1,103)
Treasury stock acquired net employee share-based compensation	**(29)**	(39)	(17)
Excess tax benefits from share-based payment arrangements	**10**	25	16
Other			17
Net cash used in financing activities	**(2,868)**	(2,953)	(1,593)
Effect of exchange rate changes on cash	**(29)**	5	5
Net increase (decrease) in cash	**79**	(188)	122

Cash at beginning of period		**271**		459		337
Cash at end of period	**$**	**350**	$	271	$	459
Supplemental disclosure of cash flow information						
Income taxes paid	**$**	**841**	$	1,346	$	861
Interest paid	**$**	**375**	$	357	$	358

See notes to consolidated financial statements.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and claims and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications have been made to the 2007 and 2006 financial statements to conform to the 2008 presentation. All material intercompany transactions and balances have been eliminated.

Adoption of New Accounting Standards

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, the FASB issued FASB Staff Position (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, and elected not to apply the provisions of FAS 157 to goodwill and other intangible assets held by the Company and measured annually for impairment testing purposes only. The adoption of FAS 157 and FSP FAS 157-2 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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Impairment of Structured Securities

In January 2009, the FASB issued FASB Staff Position (FSP) EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (FSP EITF 99-20-1), which is effective for interim and annual periods ending after December 15, 2008. FSP EITF 99-20-1 amends EITF 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* (EITF 99-20), to align the impairment guidance in EITF 99-20 with the impairment guidance in FAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. FSP EITF 99-20-1 amends the cash flows model used to analyze an other-than-temporary impairment under EITF 99-20 by replacing the market participant view with management's assumption of whether it is probable that there is an adverse change in the estimated cash flows. The adoption of FSP EITF 99-20-1 in the fourth 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 was 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 any of the 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 at adoption.

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*

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 applies to share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The adoption of EITF 06-11 at January 1, 2008 did not have a material effect on the Company's results of operations, financial position or liquidity.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (FAS 158). FAS 158 requires an employer to recognize the funded status of a benefit plan as an asset or liability in its statement of financial position, measured as the difference between plan assets at fair value and the benefit obligation, and to recognize as a component of accumulated other changes in equity from nonowner sources, net of tax, actuarial gains or losses and prior service costs or credits that arise during the period but which are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87, *Employers' Accounting for Pensions* (FAS 87), or FASB Statement No. 106*, Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106). The provisions of FAS 87 and FAS 106 continue to apply in measuring plan assets and benefit obligations, as of the date of the fiscal year-end statement of financial position, and in determining the amount of net periodic benefit cost. The provisions of FAS 158 were effective for fiscal years ending after December 15, 2006 and did not allow retrospective application. The Company's adoption of FAS 158 effective December 31, 2006 resulted in an $80 million reduction, net of tax, to shareholders' equity in 2006 and was recognized as an adjustment to the ending balance of accumulated other changes in equity from nonowner sources. The adoption of FAS 158 did not affect the Company's results of operations or liquidity as FAS 158 does not affect the determination of net periodic pension cost. See note 13.

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

Table of Contents

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.

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 to provide information on an entity's intent and/or ability to renew or extend the arrangement.

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.

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. Early application was not permitted. The Company has estimated that the application of the FSP computational guidance will reduce previously reported basic EPS for the years ended December 31, 2008 and 2007 by $0.03 per share and $0.04 per share, respectively, and reduce previously reported diluted EPS by $0.01 per share for each of the years ended December 31, 2008 and 2007. In accordance with provisions of the FSP, upon adoption in 2009, all

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

prior-period basic and diluted EPS data presented will be restated to reflect the retrospective application of the FSP computational guidance.

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 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.

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.

Employers' Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued FASB Staff Position (FSP) FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. The FSP requires an employer to provide certain disclosures about plan assets of its defined benefit pension or other postretirement plans. The disclosures required include the investment policies and strategies of the plans, the fair value of the major categories of plan assets, the inputs and valuation techniques used to develop fair value measurements and a description of significant concentrations of risk in plan assets. The FSP is effective for fiscal years ending after December 15, 2009.

Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies

Investments

Fixed Maturity and Equity Securities

Fixed maturities include bonds, notes and redeemable preferred stocks. Fixed maturities, including instruments subject to securities lending agreements, are classified as available for sale and are reported at fair value, with unrealized investment gains and losses, net of income taxes, credited or charged directly to accumulated other changes in equity from nonowner sources. Equity securities, which include public common and non-redeemable preferred stocks, are classified as available for sale with changes in fair value, net of income tax, charged or credited directly to accumulated other changes in equity from nonowner sources.

Real Estate

The Company's real estate investments include warehouses, office buildings and other commercial land and properties that are directly owned. Real estate is recorded on the purchase date at the purchase price, which generally represents fair value, and is supported by internal analysis or external appraisals, using discounted cash flow analyses and other acceptable valuation techniques. Real estate held for investment purposes is subsequently carried at cost less accumulated depreciation. Buildings are depreciated on a straight-line basis over the shorter of the expected useful life of the building or 39 years. Accumulated depreciation on real estate held for investment purposes was $140 million and $111 million at December 31, 2008 and 2007, respectively. Real estate held for sale is carried at lower of cost or fair value, less estimated cost to sell.

Short-term Securities

Short-term securities are carried at amortized cost. The Company's short-term investments consist mainly of high-quality commercial paper (primarily A1/P1) with an average of 39 days to maturity at December 31, 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.

Other Investments

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

The Company holds venture capital investments and investments in non-public common and preferred stocks that are classified as "available for sale," with changes in fair value, net of income tax, charged or credited directly to accumulated other changes in equity from nonowner sources. 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's venture capital investments are generally non-publicly traded instruments in early-stage companies and historically have a holding period of four to seven years. These investments are primarily in the health care, software and computer services, and networking and information technologies infrastructures industries. The underlying investments of these venture capital investments are reported at fair value. The fair value of the venture capital investments is based on an estimate

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

determined by the external fund manager and reviewed by the Company for investments in which there is no public market.

In May 2007, the Company completed the bundled sale of a substantial portion of its venture capital portfolio. Prior to the sale, these venture capital investments were consolidated in the Company's financial statements. As a result of the sale, the Company did not have any venture capital investments that were consolidated at December 31, 2008 and 2007.

Other

Other investments include private equity limited partnerships, hedge funds, real estate partnerships, joint ventures, non-public common and preferred equities, mortgage loans and trading securities. The Company uses the equity method of accounting for private equity limited partnerships, real estate partnerships, hedge funds and joint ventures. The partnerships and hedge funds generally report investments on their balance sheet at fair value. The financial statements prepared by the investee are received by the Company on a lag basis, with the lag period generally dependent upon the type of underlying investments. The private equity partnerships and real estate partnerships provide financial information quarterly which is generally available to investors, including the Company, within three to six months following the date of the reporting period. The hedge funds provide financial information monthly which is available to investors within one month following the date of the reporting period. The Company regularly requests financial information from the partnerships prior to the receipt of the partnerships' financial statements, and records any material information obtained from these requests in the financial statements. Mortgage loans are carried at amortized cost. Trading securities are marked to market with the change in fair value recognized in net investment income during the current period.

Derivative Financial Instruments

The Company may use derivative financial instruments, including interest rate swaps, foreign currency forward contracts, equity swaps, credit derivatives, options, forward contracts and financial futures, as a means of hedging exposure to interest rate, equity price change and foreign currency risk. During 2008 and 2007, the Company used U.S. Treasury note futures to modify the duration of specific assets within the investment portfolio and a foreign currency forward contract to hedge foreign currency exposure of an investment in a foreign operation. The Company also held non-public stock purchase warrants of a publicly-held company which are reported in other investments. For a further discussion of the derivatives used by the Company, see note 3.

The Company's insurance subsidiaries do not hold or issue derivative instruments for trading purposes. The Company recognizes all derivatives, including certain derivative instruments embedded in other contracts, as either assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. Where applicable, hedge accounting is used to account for derivatives. For an instrument to qualify as a hedge, the hedge relationship must be designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge, including the item and risk that are being hedged, the derivative that is being used, and how effectiveness is being assessed. A derivative must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of these hedging relationships is evaluated on a retrospective and prospective basis using quantitative measures of

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

correlation. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge, and any excess gains or losses attributable to such ineffectiveness as well as subsequent changes in fair value are recognized in net realized investment gains (losses). The recognition of gains or losses on derivative instruments that have been designated and qualify as a hedge depends upon whether the derivative instrument is a fair value hedge, a cash flow hedge or a foreign currency hedge.

Derivatives that do not qualify for hedge accounting are carried at fair value with the changes in fair value reflected in the consolidated statement of income in net realized investment gains (losses).

Net Investment Income

Investment income from fixed maturities and mortgage loans is recognized based on the constant effective yield method which includes an adjustment for estimated principal repayments, if any. The effective yield used to determine amortization for fixed maturities subject to prepayment risk (e.g., asset-backed, loan-backed and structured securities) is recalculated and adjusted periodically based upon actual historical and/or projected future cash flows, which are obtained from a widely-accepted securities data provider. The adjustments to the yield for highly rated prepayable fixed maturities are accounted for using the retrospective method. The adjustments to the yield for non-highly rated prepayable fixed maturities are accounted for using the prospective method. Dividends on equity securities (public and non-public) and venture capital investments are recognized in income when declared. Rental income on real estate is recognized on a straight-line basis over the lease term.

See note 3 for further discussion. Investments in private equity limited partnerships, real estate partnerships, hedge funds and joint ventures are accounted for using the equity method of accounting, whereby the Company's share of the investee's earnings or losses in the fund are reported in net investment income. Trading securities are marked to market with the change in fair value recognized in net investment income during the current period.

Accrual of income is suspended on non-securitized fixed maturities or mortgage loans that are in default, or on which it is likely that future payments will not be made as scheduled. Interest income on investments in default is recognized only when payments are received. Investments included in the consolidated balance sheet that were not income-producing for the preceding 12 months were not material.

For fixed maturities where the Company records an other-than-temporary impairment, a determination is made as to the cause of the impairment and whether the Company expects a recovery in the value. For fixed maturities where the Company expects a recovery in value, not necessarily to par, the constant effective yield method, as discussed above, is utilized and the investment is amortized to the expected recovery amount.

Investment Gains and Losses

Net realized investment gains and losses are included as a component of pretax revenues based upon specific identification of the investments sold on the trade date. Included in net realized investment gains (losses) are other-than-temporary impairment losses on invested assets other than those investments accounted for using the equity method of accounting as described in the "Investment Impairments" section that follows.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for fixed maturity securities, or cost for equity securities; (3) the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities; and (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 amounts accreted to the expected recovery amount, are recognized at disposition. Due to the subjective nature of the Company's analysis and estimates of fair value along with the judgment that must be applied in the analysis, it is possible that the Company could reach a different conclusion whether or not to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods.

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.

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

- Identification and evaluation of investments that have possible indications of other-than-temporary impairment, which includes an analysis of all investments with gross unrealized investment losses that have fair values less than 80% of cost;

- Review and evaluation of external and internal portfolio managers' recommendations for other-than-temporary impairments of any other investments based on the investee's current financial condition, liquidity, near-term recovery prospects, the outlook for the business sectors in which the investee operates and other factors (in addition to reviewing investments with an estimated fair value of less than 80% of cost);

- Consideration of evidential matter, including an evaluation of factors or triggers that may or may not cause individual investments to qualify as having other-than-temporary impairments; and

- Determination of the status of each analyzed investment as other-than-temporary or not, with documentation of the rationale for the decision.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an individual subsidiary's liquidity needs, or changes in tax laws or the regulatory environment.

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, the Company does not have the intent to hold the security, or the Company does not expect to recover its cost over a forecasted recovery period. Additionally, for certain securitized financial assets with contractual cash flows (including asset-backed securities), the Company updates its best estimate of the present value of expected cash flows over the life of the security on a quarterly basis. If management determines that the fair value of the securitized financial asset and the present value of the asset's cash flows estimated at the current financial reporting date are less than the present value of the estimated cash flows at the date of purchase (or previous financial reporting date), then an other-than-temporary impairment is recognized and the securitized financial asset is written down to fair value. For fixed maturity investments where fair value is less than the carrying value and the Company did not reach a decision to impair, the Company continues to have the intent and ability to hold such investments to a projected recovery in value, which may not be until maturity. Equity securities are other-than-temporarily impaired when it becomes apparent that the Company will not recover its cost over a forecasted recovery period.

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. Further, for public securities managed by external managers, the Company cannot assert the intent and ability to hold the security to recovery and, therefore, considers the securities impaired when fair value is below the carrying value at the end of the reporting period.

Real Estate Investments

On at least an annual basis, the Company obtains independent appraisals for substantially all of its real estate investments. In addition, the carrying value of all real estate 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 considers the valuation from the independent appraisal, when applicable, and incorporates 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.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Investments

Mortgage Loans

A mortgage loan is considered impaired when it is probable that the Company will be unable to collect principal and interest amounts due. For mortgage loans that are determined to be impaired, a reserve is established for the difference between the amortized cost and the fair market value of the underlying collateral. In estimating fair value, the Company uses interest rates reflecting the current real estate financing market returns. The Company did not have any impaired mortgage loans at December 31, 2008 and 2007.

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

Externally managed venture capital investments and non-public and preferred equity securities are reviewed quarterly for other-than-temporary impairment by the external fund manager and the Company's portfolio managers. Internally managed venture capital investments and non-public and preferred equity securities are reviewed quarterly by the Company's portfolio managers. The Company's portfolio managers and the external fund manager review and consider a variety of factors in determining the valuation of the investments and the potential for other-than-temporary impairments. Factors considered include the following:

- the investee's most recent financing events;
- an analysis of whether a fundamental deterioration or improvement has occurred;
- whether the investee's progress has been substantially more or less than expected;
- whether or not the valuations have improved or declined significantly in the investee's market sector;
- whether or not the external fund manager and the Company believe it is probable that the investee will need financing within six months at a lower price than the Company's carrying value; and
- whether or not the Company has the ability and intent to hold the investment for a period of time sufficient to allow for recovery, enabling the Company to receive value equal to or greater than its cost.

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 its cost of an individual holding. The quarterly valuation procedures described above are in addition to the portfolio managers' ongoing responsibility to frequently monitor developments affecting those invested assets, paying particular attention to events that might give rise to impairment write-downs.

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

Included in other investments are private equity limited partnerships, investments in hedge funds and real estate partnerships that generally report investments on their balance sheet at fair value and are accounted for by the Company using the equity method of accounting. The Company reviews these investments for impairment no less frequently than quarterly and monitors the performance throughout

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the year through discussions with the managers/general partners. If the Company becomes aware of an impairment of a partnership's investments at the balance sheet date prior to receiving the partnership's financial statements, it will recognize an impairment by recording a reduction in the carrying value of the partnership with a corresponding charge to net investment income.

Securities Lending

The Company has engaged in securities lending activities from which it generates net investment income by lending certain of its investments to other institutions for short periods of time. Borrowers of these securities provide collateral equal to at least 102% of the market value of the loaned securities plus accrued interest. This collateral is held by a third-party custodian, and the Company has the right to access the collateral only in the event that the institution borrowing the Company's securities is in default under the lending agreement. Therefore, the Company does not recognize the receipt of the collateral held by the third-party custodian or the obligation to return the collateral. The loaned securities remain a recorded asset of the Company. During the third quarter of 2008, the Company began accepting only cash as collateral for securities on loan and restricted the manner in which that cash was invested.

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated claim liability. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance for estimated uncollectible reinsurance recoverables. Any subsequent collections of amounts previously written off are reported as part of claims and claim adjustment expenses. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies.

Deferred Acquisition Costs

Amounts which vary with and are primarily related to the production of new insurance contracts, consisting of commissions and premium-related taxes, are deferred and amortized pro rata over the contract periods in which the related premiums are earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income and, if not, are charged to expense. Future investment income attributable to related premiums is taken into account in measuring the recoverability of the carrying value of this asset. All other acquisition expenses are charged to operations as incurred.

Contractholder Receivables and Payables

Under certain workers' compensation insurance contracts with deductible features, the Company is obligated to pay the claimant for the full amount of the claim. The Company is subsequently reimbursed by the policyholder for the deductible amount. These amounts are included on a gross basis

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in the consolidated balance sheet in contractholder payables and contractholder receivables, respectively.

Goodwill and Other Intangible Assets

The Company performs a review, on at least an annual basis, of goodwill held by the reporting units which are the Company's three operating and reportable segments: Business Insurance; Financial, Professional & International Insurance; and Personal Insurance. The Company estimates the fair value of its reporting units and compares it to their carrying value, including goodwill. If the carrying values of the reporting units exceed their fair value, the amount of the impairment is calculated and goodwill is adjusted accordingly.

In 2008, the Company changed its methodology for estimating the fair value of its reporting units from a multiple of earnings model to a discounted cash flow model. This change was made as a result of the effects of a severe disruption of the credit and equity markets and significant changes in the insurance industry that caused disparities between the multiple of earnings of the Company and the observed multiple of earnings of its competitors. The discounted cash flow model is an income approach to valuation that is based on a more detailed analysis for deriving a current fair value of reporting units and is more representative of the Company's current and expected future financial performance. The discounted cash flow model relies on the Company's assumptions of its future operating earnings, discounted utilizing an estimate of the Company's cost of equity. Other indefinite-lived intangible assets held by the Company are also reviewed for impairment on at least an annual basis. The classification of the asset as indefinite-lived is reassessed, and an impairment is recognized if the carrying amount of the asset exceeds its fair value.

Intangible assets that are deemed to have finite useful life are amortized over their useful lives. The carrying amount of intangible assets with a finite useful life is regularly reviewed for indicators of impairment in value. Impairment is recognized only if the carrying amount of the intangible asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the fair value of the asset.

The Company's review did not result in an impairment of its indefinite-lived or finite-lived intangible assets for the years ended December 31, 2008, 2007 and 2006.

Claims and Claim Adjustment Expense Reserves

Claims and claim adjustment expense reserves represent estimates for both reported and unreported claims incurred and related expenses. The reserves are adjusted regularly based upon experience. Included in the claims and claim adjustment expense reserves in the consolidated balance sheet are certain reserves discounted to the present value of estimated future payments. The liabilities for losses for most long-term disability payments under workers' compensation insurance and workers' compensation excess insurance, which totaled $2.25 billion and $2.09 billion at December 31, 2008 and 2007, respectively, were discounted using a rate of 5% at both December 31, 2008 and 2007. Reserves totaling $33 million for certain assumed reinsurance business at December 31, 2007 were discounted using a rate of 7%. No reserves for such business were discounted at December 31, 2008.

In determining claims and claim adjustment expense reserves, the Company performs a continuing review of its overall position, its reserving techniques and its reinsurance. The reserves are also

Table of Contents

reviewed regularly by qualified actuaries employed by the Company. These reserves represent the estimated ultimate cost of all incurred claims and claim adjustment expenses. Since the reserves are based on estimates, the ultimate liability may be more or less than such reserves. The effects of changes in such estimated reserves are included in the results of operations in the period in which the estimates are changed. Such changes in estimates could occur in a future period and may be material to the Company's results of operations and financial position in such period.

Other Liabilities

Included in other liabilities in the consolidated balance sheet is the Company's estimate of its liability for guaranty fund and other insurance-related assessments. The liability for expected state guaranty fund and other premium-based assessments is recognized as the Company writes or becomes obligated to write or renew the premiums on which the assessments are expected to be based. The liability for loss-based assessments is recognized as the related losses are incurred. At December 31, 2008 and 2007, the Company had a liability of $375 million and $278 million, respectively, for guaranty fund and other insurance-related assessments and related recoverables of $11 million at both dates. The liability for such assessments and the related recoverables are not discounted for the time value of money. The loss-based assessments are expected to be paid over a period ranging from one year to the life expectancy of certain workers' compensation claimants and the recoveries are expected to occur over the same period of time.

Also included in other liabilities is an accrual for policyholder dividends. Certain insurance contracts, primarily workers' compensation, are participating whereby dividends are paid to policyholders in accordance with contract provisions. Net written premiums for participating dividend policies were approximately 1% of total Company net written premiums for each of the years ended December 31, 2008, 2007 and 2006. Policyholder dividends are accrued against earnings using best available estimates of amounts to be paid. The liability accrued for policyholder dividends totaled $45 million and $39 million at December 31, 2008 and 2007, respectively.

Treasury Stock

Treasury stock represents the cost of common stock repurchased by the Company, which stock represents authorized and unissued shares of the Company under the Minnesota Business Corporation Act.

Statutory Accounting Practices

The Company's insurance subsidiaries, domiciled principally in the states of Connecticut and Minnesota, prepare statutory financial statements in accordance with the accounting practices prescribed or permitted by the insurance departments of the states of domicile. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the domiciliary state, but allowed by the domiciliary state regulatory authority. The impact of any permitted accounting practices on statutory surplus of the Company is not material.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premiums and Unearned Premium Reserves

Premiums are recognized as revenues pro rata over the policy period. Unearned premium reserves represent the unexpired portion of policy premiums. Accrued retrospective premiums are included in premium balances receivable. Premium balances receivable are reported net of an allowance for estimated uncollectible premium amounts.

Ceded premiums are charged to income over the applicable term of the various reinsurance contracts with third party reinsurers. Prepaid reinsurance premiums represent the unexpired portion of premiums ceded to reinsurers and are reported as part of other assets.

Reinsurance to Close

Under the accounting conventions used by Lloyd's members, each underwriting account is normally kept open for three years and the underwriting results determined at the end of the third year when the account is closed, although a longer period may be required in order to determine reserves at the required degree of accuracy/confidence for exposures having significant uncertainty. When a year of account is closed, a reinsurance contract (the "reinsurance to close" or RITC) is entered into with a subsequent year of account (normally the following year of account) in consideration for which all subsequent underwriting transactions resulting from the closing year and all previous years reinsured therein are brought forward to (accepted by) the subsequent year of account.

The amount of the assets received in an RITC is equal to the accepted claims including incurred but not reported (IBNR) claims and is undiscounted for the time value of money. Accordingly, there is no gain or loss at the time the assets and liabilities are acquired and recognized by the subsequent year of account. In addition, there is no impact on reported premiums and losses as a result of an RITC transaction.

Fee Income

Fee income includes servicing fees from carriers and revenues from large deductible policies and service contracts and is recognized pro rata over the contract or policy periods.

Other Revenues

Other revenues include revenues from premium installment charges, which are recognized as collected, revenues of noninsurance subsidiaries other than fee income and gains and losses on dispositions of assets and redemption of debt, and other miscellaneous revenues.

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency, and the resulting foreign exchange gains or losses are reflected in earnings. Functional currency amounts are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from nonowner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for items reported in the balance sheets and average exchange rates for items recorded in earnings.

Share-Based Compensation

The Company has an employee stock incentive compensation plan that permits grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, deferred stock, stock units, performance awards and other stock-based or stock-denominated awards with respect to the Company's common stock.

Compensation cost is measured based on the grant-date fair value of an award, determined pursuant to FAS 123R, *Share-Based Payment,* utilizing the assumptions discussed in note 12. Compensation cost is recognized for financial reporting purposes over the period in which the employee is required to provide service in exchange for the award (generally the vesting period). In connection with certain share-based awards, participants are entitled to receive dividends during the vesting period, either in cash or dividend equivalent shares, commensurate with the dividends paid to common shareholders. Dividends and dividend equivalent shares on awards that are expected to vest are recorded in retained earnings. Dividends paid in cash are presented in the "Dividends" caption of retained earnings while dividend equivalent shares are presented in the "Other" caption of retained earnings. Dividends on awards that are not expected to vest are not subject to forfeiture and are, therefore, recorded as compensation expense.

Nature of Operations

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

The specific business segments are as follows:

Business Insurance

The Business Insurance segment offers a broad array of property and casualty insurance and insurance-related services to its clients primarily in the United States. Business Insurance is organized into the following six groups, which collectively comprise Business Insurance Core operations:

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial Accounts serves mid-sized businesses for property and casualty products, including property, general liability, commercial multi-peril, commercial auto and workers' compensation insurance.

National Accounts comprises three business units. The largest provides casualty products and services to large companies, with particular emphasis on workers' compensation, general liability and automobile liability, generally utilizing loss-sensitive products such as collateralized deductibles or self-insured programs. National Accounts also includes Discover Re, which provides property and casualty insurance products on an unbundled basis using third-party administrators for insureds who utilize programs such as collateralized deductibles, captive reinsurers and self-insurance. In addition, National Accounts includes the commercial residual market business, which primarily offers workers' compensation products and services to the involuntary market.

Industry-Focused Underwriting. The following units serve targeted industries with differentiated combinations of insurance coverage, risk management, claims handling and other services:

Construction serves a broad range of construction businesses, offering guaranteed cost products for small to mid-sized policyholders and loss sensitive programs for larger accounts. For the larger accounts, the customer and the Company work together in actively managing and controlling exposure and claims and they share risk through policy features such as deductibles or retrospective rating. Products offered include workers' compensation, general liability, umbrella, commercial auto, property and inland marine coverages, and other risk management solutions.

Technology serves small to large companies involved in telecommunications, information technology, medical technology and electronics manufacturing, offering a comprehensive portfolio of products and services. These products include property, commercial auto, general liability, workers' compensation, umbrella, internet liability, technology errors and omissions coverages and global companion products.

Public Sector Services markets insurance products and services to public entities including municipalities, counties, Indian Nation gaming and selected special government districts such as water and sewer utilities. The policies written by this unit typically cover property, commercial auto, general liability and errors and omissions exposures.

Oil & Gas provides specialized property and liability products and services for customers involved in the exploration and production of oil and natural gas, including operators and drilling contractors, as well as various service and supply companies and manufacturers that support upstream operations. The policies written by this business group cover risks including physical damage, liability and business interruption.

Agribusiness serves small to medium-sized agricultural businesses, including farms, ranches, wineries and related operations, offering property and liability coverages other than workers' compensation.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Target Risk Underwriting. The following units serve commercial businesses requiring specialized product underwriting, claims handling and risk management services:

National Property provides traditional and customized property insurance programs to large and mid-sized customers, including office building owners, manufacturers, municipalities and schools, retailers, and service businesses. These insurance programs cover losses on buildings, business assets, personal property and business interruption exposures.

Inland Marine provides insurance for goods in transit and movable objects for customers such as jewelers, museums, contractors and the transportation industry. Builders' risk insurance is also offered to customers during the construction, renovation or repair of buildings and other structures.

Ocean Marine serves the marine transportation industry and related services, as well as other businesses involved in international trade. The Company's product offerings in this unit fall under six main coverage categories: marine liability, cargo, hull and machinery, protection and indemnity, pleasure craft, and marine property and liability.

Excess Casualty serves small to mid-sized commercial businesses, offering mono-line umbrella and excess coverage where the Company typically does not write the primary casualty coverage, or where other business units within the Company prefer to access the underwriting expertise and/or limit capacity of the Excess Casualty business unit.

Boiler & Machinery serves small to large companies, offering comprehensive breakdown coverages for equipment, including property and business interruption coverages. Through the BoilerRe unit, Boiler & Machinery also serves other property casualty carriers that do not have in-house expertise with reinsurance, underwriting, engineering, claim handling and risk management services for this type of coverage.

Global Accounts provides insurance to U.S. companies with foreign property and liability exposures (home-foreign), and foreign organizations with property and liability exposures located in the United States (reverse-flow), as part of a global program.

Specialized Distribution. The following units market and underwrite their products to customers predominantly through licensed wholesale, general and program agents that manage customers' unique insurance requirements:

Northland provides insurance coverage for the commercial transportation industry, as well as commercial liability and package policies for small, difficult to place specialty classes of commercial business on an admitted or excess and surplus lines basis.

National Programs offers tailored property and casualty programs on an admitted basis for customers with common risk characteristics or coverage requirements. Programs available include those for entertainment, architects and engineers, equipment rental and golf services.

Business Insurance also includes the Special Liability Group (which manages the Company's asbestos and environmental liabilities); the assumed reinsurance, health care, and certain international and other runoff operations; and policies written by the Company's Gulf operation (Gulf), which is in runoff. These are collectively referred to as Business Insurance Other. In December 2008, the Company

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

completed the sale of Unionamerica Holdings Limited (Unionamerica), which comprised its United Kingdom-based runoff insurance and reinsurance businesses. The sale was not material to the Company's results of operations or financial position.

Financial, Professional & International Insurance

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

Bond & Financial Products provides a wide range of customers with bond and insurance products and risk management services. The range of coverages includes surety and fidelity bonds for construction and general commercial enterprises; professional liability and management liability for public corporations, private companies and not-for-profit organizations for losses caused by the negligence or misconduct of named directors and officers; professional liability for a variety of professionals, such as lawyers, design professionals and real estate agents for liability from errors and omissions committed in the course of professional conduct or practice; and a full range of property, auto, liability, fidelity and professional/management liability insurance for financial institutions, with a special focus on community banks.

In March 2007, the Company completed the sale of its Mexican surety subsidiary, Afianzadora Insurgentes, S.A. de C.V., which accounted for $25 million and $78 million of net written premiums in the years ended December 31, 2007 and 2006, respectively. The impact of this transaction was not material to the Company's results of operations or financial position.

International includes business written through domestic operations in the United Kingdom, Canada and the Republic of Ireland and business written as a corporate member at Lloyd's. International, through its operations in the United Kingdom, Canada and the Republic of Ireland, offers specialized insurance and risk management services to several customer groups, including those in the technology, public services, and financial and professional services industry sectors. International, through its Lloyd's syndicate (Syndicate 5000), for which the Company provides 100% of the capital, underwrites through five principal business units aviation, marine, global property, accident & special risks, and power & utilities.

Personal Insurance

The Personal Insurance segment writes virtually all types of property and casualty insurance covering personal risks. The primary coverages in Personal Insurance are automobile and homeowners insurance sold to individuals. These products are distributed through independent agents, sponsoring organizations such as employee and affinity groups, joint marketing arrangements with other insurers and direct marketing.

Automobile policies provide coverage for liability to others for both bodily injury and property damage, and for physical damage to an insured's own vehicle from collision and various other perils. In addition, many states require policies to provide first-party personal injury protection, frequently referred to as no-fault coverage.

Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Homeowners policies are available for dwellings, condominiums, mobile homes and rental property contents. Protection against losses to dwellings and contents from a wide variety of perils (excluding flooding) is included in these policies, as well as coverage for liability arising from ownership or occupancy.

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 approximately $49 million and $187 million of net written premiums for the years ended December 31, 2007 and 2006, respectively. The sale was not material to the Company's results of operations or financial position.

2. SEGMENT INFORMATION

The Company is organized into three reportable business segments: Business Insurance; Financial, Professional & International Insurance; and Personal Insurance. The accounting policies used to generate the following segment data are the same as those described in the Summary of Significant Accounting Policies in note 1.

Except as described below for certain legal entities, the Company allocates its invested assets and the related net investment income to its reportable business segments. 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.

The cost of the Company's catastrophe treaty program is included in the Company's ceded premiums and is allocated among reportable business segments based on an estimate of actual market reinsurance pricing using expected losses calculated by the Company's catastrophe model, adjusted for any experience adjustments.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

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

(for the year ended December 31, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2008				
Premiums	**$ 11,180**	**$ 3,429**	**$ 6,970**	**$ 21,579**
Net investment income	**1,917**	**454**	**421**	**2,792**
Fee income	**390**			**390**
Other revenues	**30**	**24**	**75**	**129**
Total operating revenues(1)	**$ 13,517**	**$ 3,907**	**$ 7,466**	**$ 24,890**
Amortization and depreciation	**$ 2,357**	**$ 796**	**$ 1,544**	**$ 4,697**
Income tax expense	**673**	**254**	**146**	**1,073**
Operating income(1)	**2,338**	**649**	**465**	**3,452**
2007				
Premiums	$ 11,283	$ 3,384	$ 6,803	$ 21,470
Net investment income	2,708	494	559	3,761
Fee income	508			508
Other revenues	24	29	90	143
Total operating revenues(1)	$ 14,523	$ 3,907	$ 7,452	$ 25,882
Amortization and depreciation	$ 2,278	$ 781	$ 1,448	$ 4,507
Income tax expense	1,064	251	437	1,752
Operating income(1)	3,015	675	1,019	4,709
2006				
Premiums	$ 10,876	$ 3,321	$ 6,563	$ 20,760
Net investment income	2,538	429	548	3,515
Fee income	591			591
Other revenues	44	26	94	164
Total operating revenues(1)	$ 14,049	$ 3,776	$ 7,205	$ 25,030
Amortization and depreciation	$ 2,109	$ 769	$ 1,282	$ 4,160
Income tax expense	918	199	518	1,635
Operating income(1)	2,622	609	1,132	4,363

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

Net written premiums by market were as follows:

(for the year ended December 31, in millions)	2008	2007	2006
Business Insurance:			
Select Accounts	**$ 2,756**	$ 2,711	$ 2,663
Commercial Accounts	**2,524**	2,518	2,376
National Accounts	**996**	1,056	1,135
Industry-Focused Underwriting	**2,396**	2,301	2,196
Target Risk Underwriting	**1,593**	1,665	1,629
Specialized Distribution	**939**	1,015	1,022
Total Business Insurance Core	**11,204**	11,266	11,021
Business Insurance Other	**16**	52	25
Total Business Insurance	**11,220**	11,318	11,046
Financial, Professional & International Insurance:			
Bond & Financial Products	**2,228**	2,228	2,255
International	**1,240**	1,237	1,138
Total Financial, Professional & International Insurance	**3,468**	3,465	3,393
Personal Insurance:			
Automobile	**3,660**	3,628	3,692
Homeowners and Other	**3,335**	3,207	3,019
Total Personal Insurance	**6,995**	6,835	6,711
Total consolidated net written premiums	**$ 21,683**	$ 21,618	$ 21,150

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

Business Segment Reconciliations

(for the year ended December 31, in millions)	2008	2007	2006
Revenue reconciliation			
Earned premiums			
Business Insurance:			
Commercial multi-peril	**$ 2,988**	$ 3,087	$ 3,056
Workers' compensation	**2,373**	2,221	1,970
Commercial automobile	**1,957**	2,026	1,999
Property	**1,895**	1,989	1,901
General liability	**1,959**	1,917	1,929
Other	**8**	43	21
Total Business Insurance	**11,180**	11,283	10,876
Financial, Professional & International Insurance:			
Fidelity and surety	**1,163**	1,070	1,093
General liability	**904**	951	1,005
International	**1,228**	1,231	1,101
Other	**134**	132	122
Total Financial, Professional & International Insurance	**3,429**	3,384	3,321
Personal Insurance:			
Automobile	**3,708**	3,692	3,672
Homeowners and Other	**3,262**	3,111	2,891
Total Personal Insurance	**6,970**	6,803	6,563
Total earned premiums	**21,579**	21,470	20,760
Net investment income	**2,792**	3,761	3,515
Fee income	**390**	508	591
Other revenues	**129**	143	164
Total operating revenues for reportable segments	**24,890**	25,882	25,030
Interest Expense and Other	**2**	(19)	49
Net realized investment gains (losses)	**(415)**	154	11
Total consolidated revenues	**$ 24,477**	$ 26,017	$ 25,090
Income reconciliation, net of tax			
Total operating income for reportable segments	**$ 3,452**	$ 4,709	$ 4,363
Interest Expense and Other(1)	**(257)**	(209)	(163)
Total operating income	**3,195**	4,500	4,200
Net realized investment gains (losses)	**(271)**	101	8
Total consolidated net income	**$ 2,924**	$ 4,601	$ 4,208

(1) The primary component of Interest Expense and Other is after-tax interest expense of $239 million, $224 million and $207 million in 2008, 2007 and 2006, respectively. The 2007 total also included a benefit of $52 million from the favorable resolution of various prior year federal

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

tax matters and an after-tax loss of $25 million related to the Company's redemption of its 4.50% contingently convertible debentures. The 2006 total also includes a $27 million after-tax gain on the redemption of the Company's $593 million, 7.60% subordinated debentures. See note 8.

(at December 31, in millions)	2008	2007
Asset reconciliation(1):		
Business Insurance	**$ 82,622**	$ 87,160
Financial, Professional & International Insurance	**13,356**	14,099
Personal Insurance	**13,151**	13,300
Total assets for reportable segments	**109,129**	114,559
Other assets(2)	**622**	665
Total consolidated assets	**$ 109,751**	$ 115,224

(1) The amount of investments in equity method investees and total expenditures for additions to long-lived assets other than financial instruments were not material.

(2) The major components of other assets in 2008 and 2007 were other intangible assets, property and equipment and deferred taxes.

Enterprise-Wide Disclosures

Revenues from internal customers for the years ended December 31, 2008, 2007 and 2006 were not material. Foreign assets at December 31, 2008 and 2007 also were not material. The Company does not have revenue from transactions with a single customer amounting to 10 percent or more of its revenues.

The following table presents revenues of the Company's operations based on location:

(for the year ended December 31, in millions)	2008	2007	2006
U.S.	**$ 22,809**	$ 24,413	$ 23,588
Non-U.S.	**1,668**	1,604	1,502
Total revenues	**$ 24,477**	$ 26,017	$ 25,090

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS

Fixed Maturities

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

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

(at December 31, 2007, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 2,092	$ 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

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

(at December 31, 2008, in millions)	Amortized Cost	Fair Value
Due in one year or less	**$ 2,982**	**$ 3,009**
Due after 1 year through 5 years	**16,285**	**16,568**
Due after 5 years through 10 years	**17,476**	**17,602**
Due after 10 years	**18,560**	**18,037**
	55,303	**55,216**
Mortgage-backed securities	**6,266**	**6,059**
Total	**$ 61,569**	**$ 61,275**

At December 31, 2008 and 2007, the Company held commercial mortgage-backed securities (CMBS, including FHA project loans) of $766 million and $935 million, respectively, which are

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

included in "All other corporate bonds" in the tables above. At December 31, 2008, approximately $258 million of these securities, or the loans backing such securities, contained guarantees by the United States Government or a government-sponsored enterprise and $20 million were comprised of Canadian non-guaranteed securities. The average credit rating of the $508 million of non-guaranteed securities at December 31, 2008 was "Aaa," and 93% 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 makes investments in residential 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 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 December 31, 2008 and 2007, the Company held CMOs classified as available for sale with a fair value of $2.84 billion and $3.59 billion, respectively (in addition to the CMBS securities of $766 million and $935 million, respectively, described above). Approximately 35% and 31% of the Company's CMO holdings are guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC at December 31, 2008 and 2007, respectively. In addition, the Company held $3.22 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 December 31, 2008 and 2007, respectively. The average credit rating of all of the above securities was "Aaa" at both dates.

At December 31, 2008 and 2007, the Company had $8 million and $1.99 billion, respectively, of securities on loan as part of a tri-party lending agreement. During the third quarter of 2008, the Company began accepting only cash as collateral for securities on loan and restricted the manner in which that cash was invested.

Proceeds from sales of fixed maturities classified as available for sale were $6.93 billion, $7.32 billion and $4.40 billion in 2008, 2007 and 2006, respectively. Gross gains of $121 million, $76 million and $95 million and gross losses of $168 million, $34 million and $121 million were realized on those sales in 2008, 2007 and 2006, respectively.

At December 31, 2008 and 2007, the Company's insurance subsidiaries had $4.32 billion and $4.21 billion, respectively, of securities on deposit at financial institutions in certain states pursuant to the respective states' insurance regulatory requirements.

The Company has certain subsidiaries that are required to hold investments in trust or in escrow. The Company held trust funds with a fair value of $4 million and $269 million at December 31, 2008 and 2007, respectively. Funds deposited with third parties to be used as collateral to secure various liabilities on behalf of insureds, cedants and other creditors had a fair value of $105 million and $129 million at December 31, 2008 and 2007, respectively. Other investments pledged as collateral

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

securing outstanding letters of credit had a fair value of $104 million and $142 million at December 31, 2008 and 2007, respectively.

Equity Securities

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

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

(at December 31, 2007, in millions)	Cost	Gross Unrealized 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

Proceeds from sales of equity securities were $53 million, $106 million and $285 million in 2008, 2007 and 2006, respectively. Gross gains of $6 million, $10 million and $29 million and gross realized losses of $4 million, $1 million and $4 million were realized on those sales in 2008, 2007 and 2006, respectively.

Real Estate

The Company's real estate investments include warehouses, office buildings, land, and other commercial real estate assets that are directly owned. The Company negotiates commercial leases with individual tenants through unrelated, licensed real estate brokers. Negotiated terms and conditions include, among others, rental rates, length of lease period and improvements to the premises to be provided by the landlord.

Proceeds from the sale of real estate investments totaled $25 million in 2008 and $11 million in 2007. Gross gains of $2 million and $1 million, respectively, were realized on those sales and no gross losses were recognized on those sales. The Company did not sell any real estate investments in 2006.

Future minimum rental income expected on operating leases relating to the Company's real estate properties is $115 million, $97 million, $71 million, $43 million, $26 million, and $52 million for 2009, 2010, 2011, 2012, 2013 and 2014 and thereafter, respectively.

Short-term Investments

Short-term investments consist primarily of money market instruments and other debt securities purchased with a maturity of less than one year. The amortized cost of these securities, which totaled $5.22 billion and $5.19 billion at December 31, 2008 and 2007, respectively, approximates their fair value.

186

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Other Investments

Other investments include private equity limited partnerships, hedge funds, real estate partnerships, joint ventures, non-public common and preferred equity securities, mortgage loans, venture capital investments and trading securities.

In 2007, the Company completed the bundled sale of a substantial portion of its venture capital portfolio for total net proceeds of $397 million, which are included on the consolidated statement of cash flows in "proceeds from sales of other investments." The sale resulted in the realization of $81 million of previously unrealized pretax net investment gains that had been recorded as a component of accumulated other changes in equity from nonowner sources.

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 December 31, 2008 and 2007, there were 24 and 31 such trusts, respectively, which held a combined total of $277 million and $355 million, respectively, in municipal securities, of which $32 million and $44 million, respectively, were owned by outside investors. The net carrying value of the trusts owned by the Company at December 31, 2008 and 2007 was $245 million and $311 million, respectively.

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:

Camperdown UK Limited, which 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 $125 million. The carrying value of this obligation at December 31, 2008 and 2007 was $23 million and $59 million, respectively.

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 $309 million and $310 million at December 31, 2008 and 2007, respectively.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at December 31, 2008 and 2007, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in the tables are estimates that are prepared using the process described in note 4. The Company also relies upon estimates of several factors in its review and evaluation of individual investments, using the process described in note 1, in determining whether such investments are other-than-temporarily impaired.

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

(at December 31, 2007, in millions)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized Losses	12 months or longer Fair Value	12 months or longer Gross Unrealized Losses	Total Fair Value	Total 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

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 December 31, 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:

	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
(in millions)	Less Than 3 Months	Greater Than 3 Months, Less Than 6 Months	Greater Than 6 Months, Less Than 12 Months	Greater Than 12 Months	Total
Fixed maturities:					
Mortgage-backed securities	**$ 222**	**$ 36**	**$ 1**	**$**	**$ 259**
Other	**329**	**73**	**12**		**414**
Total fixed maturities	**551**	**109**	**13**		**673**
Equity securities	**41**	**30**			**71**
Total	**$ 592**	**$ 139**	**$ 13**	**$**	**$ 744**

These unrealized losses at December 31, 2008 represent approximately 1% of the combined fixed maturity and equity security portfolios on a pretax basis and approximately 2% of shareholders' equity on an after-tax basis.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Impairment Charges

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

(for the year ended December 31, in millions)	2008	2007	2006
Fixed maturities	**$ 324**	$ 37	$ 7
Equity securities	**74**	7	4
Other investments	**22**	26	37
Total	**$ 420**	$ 70	$ 48

Concentrations and Credit Quality

At December 31, 2008 and 2007, the Company had concentrations of credit risk in state, municipal and political subdivision obligations from the following states: Texas, $3.73 billion and $3.45 billion, respectively; California, $1.99 billion and $2.07 billion, respectively; and Illinois, $1.95 billion and $1.93 billion, respectively. These concentrations exclude advance refunded and escrowed-to-maturity bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest. Such escrow accounts are verified as to their sufficiency by an external auditor and almost exclusively involve U.S. Treasury securities. The Company does not have any individually significant exposures.

Included in fixed maturities are below investment grade assets totaling $1.20 billion and $1.64 billion at December 31, 2008 and 2007, respectively. The Company defines its below investment grade assets as those securities rated below investment grade by external rating agencies, or the equivalent by the Company when a public rating does not exist. Such assets include publicly traded below investment grade bonds and certain other privately issued bonds that are classified as below investment grade loans.

The Company monitors creditworthiness of counterparties to financial instruments by using controls that include credit approvals, limits and other monitoring procedures.

Net Investment Income

(for the year ended December 31, in millions)	2008	2007	2006
Gross investment income (loss)			
Fixed maturities	**$ 2,915**	$ 2,893	$ 2,738
Equity securities	**31**	29	30
Short-term securities	**143**	279	285
Real estate	**39**	57	38
Other investments	**(292)**	562	489
Gross investment income	**2,836**	3,820	3,580
Investment expenses	**44**	59	63
Net investment income	**$ 2,792**	$ 3,761	$ 3,517

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

Net Realized and Unrealized Investment Gains (Losses)

(for the year ended December 31, in millions)	2008	2007	2006
Net realized investment gains (losses)			
Fixed maturities	**$ (371)**	$ 5	$ (33)
Equity securities	**(72)**	2	21
Other	**28**	147	23
Net realized investment gains (losses)	**$ (415)**	$ 154	$ 11

Changes in net unrealized gains (losses) on investment securities that are included as a separate component of accumulated other changes in equity from nonowner sources were as follows:

(at and for the year ended December 31, in millions)	2008	2007	2006
Change in net unrealized investment gains (losses)			
Fixed maturities	**$ (1,062)**	$ 346	$ 55
Equity securities	**(97)**	(22)	(4)
Venture capital	**(9)**	(91)	19
Other investments	**(23)**	25	125
	(1,191)	258	195
Related tax expense (benefit)	**(427)**	91	69
Change in net unrealized gain on investment securities	**(764)**	167	126
Balance, beginning of year	**620**	453	327
Balance, end of year	**$ (144)**	$ 620	$ 453

Derivative Financial Instruments

Derivative Instruments Designated as Hedging Instruments

The Company has foreign currency hedges of net investments in foreign operations in which derivatives (foreign currency forward contracts) hedge the foreign currency exposure. The effective portion of the change in fair value of the derivative hedging the net investment, including any forward premium or discount, is reflected in the accumulated other changes in equity from nonowner sources as part of the foreign currency translation adjustment. For the years ended December 31, 2008 and 2007, the amount included in changes in equity from nonowner sources was a loss of $2 million in 2008 and a gain of $1 million in 2007. With regard to hedge ineffectiveness in 2008 and 2007, the Company had no realized gains or losses in either year.

Derivative Instruments not Designated as Hedging Instruments

Derivatives that are not designated or do not qualify as hedges are carried at fair value with changes in value reflected in net realized investment gains (losses). The Company has certain U.S. Treasury futures contracts and foreign currency forward contracts, which are not designated as hedges at December 31, 2008 and 2007.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

The Company engaged in U.S. Treasury note futures transactions to modify the duration of specific assets within the investment portfolio. The Company enters into 90-day futures contracts on 2-year, 5-year, 10-year and 30-year U.S. Treasury notes which require a daily mark-to-market settlement with the broker. The notional value of the open U.S. Treasury futures contracts was $380 million and $250 million at December 31, 2008 and 2007, respectively. These derivative instruments are not designated and do not qualify as hedges under FAS 133 and as such the daily mark-to-market changes in fair value are reflected in net realized investment gains (losses). Net realized investment gains (losses) in 2008 and 2007 included net losses of $53 million and $8 million, respectively, related to U.S. Treasury futures contracts which are settled daily.

The Company owns six million non-public stock purchase warrants of Platinum Underwriters Holdings, Ltd., a publicly-held company. These warrants are not designated and do not qualify as hedges under FAS 133 and as such the mark-to-market changes in fair value are reflected in net realized investment gains (losses). In 2008 and 2007, the Company recorded net realized investment gains of $10 million and $21 million, respectively, related to the Company's holdings of stock purchase warrants of Platinum Underwriters Holdings, Ltd.

The Company purchases investments that have embedded derivatives, primarily convertible debt securities. These embedded derivatives are carried at fair value with changes in value reflected in net realized investment gains (losses). Derivatives embedded in convertible debt securities are reported on a combined basis with their host instrument and are classified as fixed maturity securities. In 2008 and 2007, the Company recorded net realized investment losses of $77 million and $23 million, respectively, related to these embedded derivatives. The Company divested substantially all of its holdings in convertible debt securities in 2008.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS

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

Valuation of Investments Reported at Fair Value in Financial Statements

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

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party, nationally recognized pricing service (pricing service). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly 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 TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Fixed Maturities

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

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

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

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

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

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

Table of Contents

4. FAIR VALUE MEASUREMENTS (Continued)

maker). Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

Equities Public Common and Preferred

For public common and preferred stocks, the Company receives prices from a nationally recognized pricing service that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. Infrequently, current market quotes in active markets are unavailable for certain nonredeemable 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 nonredeemable preferred stocks as it does for the fixed maturities. The Company includes the estimate in the amount disclosed in Level 2.

Other Investments

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

The Company holds investments in venture capital investments and non-public common and preferred equity securities, with a fair value estimate of $224 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 $162 million at December 31, 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 December 31, 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 in a liability position of approximately $2 million at December 31, 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 $87 million at December 31, 2008 in the amount disclosed in Level 3 other investments. The Company separately values the embedded conversion options based on observable market inputs and includes the estimate of fair value in Level 2.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (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 December 31, 2008.

(in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities	$ 61,275	$ 1,813	$ 59,308	$ 154
Equity securities	379	334	45	
Other investments	359	48		311
Total	$ 62,013	$ 2,195	$ 59,353	$ 465
Other liabilities	$ 2	$ 2	$	$

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

(in millions)	Twelve Months Ended December 31, 2008
Balance at January 1, 2008	$ 511
Total realized and unrealized gains or (losses):	
Included in realized investment gains and (losses)	3
Included in increases or (decreases) in accumulated other changes in equity from nonowner sources	(52)
Purchases, (sales), issuances and settlements	(11)
Transfers in and/or (out) of Level 3	14
Balance at December 31, 2008	$ 465
Amount of total gains for the period included in earnings attributable to changes in the fair value of assets still held at the reporting date	$ 10

The Company had no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the twelve months ended December 31, 2008.

Valuation of Financial Instruments Disclosed at Fair Value

The Company uses various financial instruments in the normal course of its business. The Company's insurance contracts are excluded from FAS 107, *Disclosures about Fair Value of Financial Instruments* and, therefore, are not included in the amounts discussed below.

The carrying values of cash, short-term securities, mortgage loans and investment income accrued approximated their fair values. See notes 1 and 3.

The carrying values of $718 million and $885 million of financial instruments classified as other assets approximated their fair values at December 31, 2008 and 2007, respectively. The carrying values of $4.34 billion and $4.68 billion of financial instruments classified as other liabilities at December 31, 2008 and 2007, respectively, also approximated their fair values. Fair value is determined using various methods including discounted cash flows, as appropriate for the various financial instruments.

196

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

The carrying value and fair value of the Company's debt at December 31, 2008 was $6.18 billion and $5.44 billion, respectively. The respective totals at December 31, 2007 were $6.24 billion and $6.06 billion. The Company utilizes a pricing service to estimate fair value measurements for approximately 96% of its debt, other than commercial paper. The pricing service utilizes market quotations for debt that have quoted prices in active markets. When quoted prices are unavailable, 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.

For some debt securities, primarily the junior subordinated debentures, the pricing service is unable to provide an estimate of fair value. For these securities, the Company utilizes pricing estimates from a nationally recognized broker/dealer to estimate fair value. The broker/dealer prepares estimates of fair value for these securities using its proprietary pricing applications which include relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. If estimates of fair value are unavailable from the pricing service or the broker/dealer, the Company produces an estimate of fair value based on internally developed valuation techniques which are based on discounted cash flow methodology and incorporates all available relevant observable market inputs. The Company bases all of its estimates of fair value for its debt 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 fair value of commercial paper included in debt outstanding at December 31, 2008 and 2007 approximated its book value because of its short-term nature.

5. REINSURANCE

The Company's consolidated financial statements reflect the effects of assumed and ceded reinsurance transactions. Assumed reinsurance refers to the acceptance of certain insurance risks that other insurance companies have underwritten. Ceded reinsurance involves transferring certain insurance risks (along with the related written and earned premiums) the Company has underwritten to other insurance companies who agree to share these risks. The primary purpose of ceded reinsurance is to protect the Company, at a cost, from volatility in excess of the amount it is prepared to accept. Reinsurance is placed on both a quota-share and excess of loss basis. Ceded reinsurance arrangements do not discharge the Company as the primary insurer, except for cases involving a novation.

Included in reinsurance recoverables are certain amounts related to structured settlements. Structured settlements comprise annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers' compensation claims comprise a significant portion. In cases where the Company did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables as the Company retains the contingent liability to the claimant. In the event that the life insurance company fails to make the required annuity payments, the Company would be required to make such payments.

The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. In addition, in the ordinary course of business, the Company may become involved in coverage disputes with its reinsurers. Some of these disputes could result in lawsuits and arbitrations brought by or against the reinsurers to determine the Company's rights and obligations under the various reinsurance

Table of Contents

5. REINSURANCE (Continued)

agreements. The Company employs dedicated specialists and strategies to manage reinsurance collections and disputes.

The Company is also required to participate in various involuntary reinsurance arrangements through assumed reinsurance, principally with regard to residual market mechanisms in workers' compensation and automobile insurance. The Company provides services for several of these involuntary arrangements ("mandatory pools and associations") under which it writes such residual market business directly, then cedes 100% of this business to the mandatory pool. Such servicing arrangements are arranged to mitigate credit risk to the Company, as any ceded balances are jointly backed by all the pool members.

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.

Certain of the assumed reinsurance contracts that the Company has entered into with non-affiliated companies on an excess of loss basis do not transfer insurance risk. These contracts, which totaled $46 million and $165 million at December 31, 2008 and 2007, respectively, are accounted for using deposit accounting and are included in other liabilities in the consolidated balance sheet.

The following is a summary of reinsurance financial data reflected in the consolidated statement of income:

(for the year ended December 31, in millions)	2008	2007	2006
Written premiums			
Direct	**$ 23,469**	$ 23,824	$ 23,635
Assumed	**368**	374	404
Ceded	**(2,154)**	(2,580)	(2,889)
Total net written premiums	**$ 21,683**	$ 21,618	$ 21,150
Earned premiums			
Direct	**$ 23,516**	$ 24,000	$ 23,280
Assumed	**386**	180	478
Ceded	**(2,323)**	(2,710)	(2,998)
Total net earned premiums	**$ 21,579**	$ 21,470	$ 20,760
Percentage of assumed earned premiums to net earned premiums	**1.8%**	0.8%	2.3%
Ceded claims and claim adjustment expenses incurred	**$ 1,605**	$ 1,299	$ 2,158

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE (Continued)

Reinsurance recoverables include amounts recoverable on both paid and unpaid claims and were as follows:

(at December 31, in millions)	2008	2007
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	**$ 9,376**	$ 10,731
Allowance for uncollectible reinsurance	**(618)**	(688)
Net reinsurance recoverables	**8,758**	10,043
Structured settlements	**3,517**	3,615
Mandatory pools and associations	**1,957**	1,983
Total reinsurance recoverables	**$ 14,232**	$ 15,641

Terrorism Risk Insurance Acts

On November 26, 2002, the Terrorism Risk Insurance Act of 2002 (the Terrorism Act) was enacted into Federal law and established the Terrorism Risk Insurance Program (the Program), a temporary Federal program in the Department of the Treasury, that provided for a system of shared public and private compensation for certain insured losses resulting from acts of terrorism or war committed by or on behalf of a foreign interest. The Program was scheduled to terminate on December 31, 2005. In December 2005, the Terrorism Risk Insurance Extension Act of 2005 (the Terrorism Extension Act) was enacted into Federal law, reauthorizing the Program through December 31, 2007, while reducing the Federal role under the Program. In December 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 was enacted into Federal law, extending coverage to include domestic acts of terrorism and reauthorizing the Program through 2014. The three acts are hereinafter collectively referred to as "the Acts."

In order for a loss to be covered under the Program (subject losses), the loss must meet certain aggregate industry loss minimums and must be the result of an event that is certified as an act of terrorism by the U.S. Secretary of the Treasury. The annual aggregate industry loss minimum is $100 million through 2014. The original Program excluded from participation certain of the following types of insurance: Federal crop insurance, private mortgage insurance, financial guaranty insurance, medical malpractice insurance, health or life insurance, flood insurance, and reinsurance. The Terrorism Extension Act exempted from coverage certain additional types of insurance, including commercial automobile, professional liability (other than directors and officers'), surety, burglary and theft, and farm-owners multi-peril. In the case of a war declared by Congress, only workers' compensation losses are covered by the Acts. The Acts generally require that all commercial property casualty insurers licensed in the United States participate in the Program. Under the Program, a participating insurer is entitled to be reimbursed by the Federal Government for 85% of subject losses, after an insurer deductible, subject to an annual cap. The Federal reimbursement percentage is 85% through 2014.

The deductible for any calendar year is equal to 20% of the insurer's direct earned premiums for covered lines for the calendar year. The Company's estimated deductible under the Program is $2.16 billion for 2009. The annual cap limits the amount of aggregate subject losses for all participating insurers to $100 billion. Once subject losses have reached the $100 billion aggregate during a program year, participating insurers will not be liable under the Program for additional covered terrorism losses

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE (Continued)

for that program year. The Company has had no terrorism-related losses since the Program was established. Because the Acts are relatively new and their interpretation is untested, there may be uncertainty as to how they will be applied to specific circumstances. Further, given the unpredictable frequency and severity of terrorism losses, as well as the limited terrorism coverage in the Company's own reinsurance program, future losses from acts of terrorism, particularly those involving nuclear, biological, chemical or radiological events, could be material to the Company's operating results, financial position and/or liquidity in future periods. The Company will continue to manage this type of catastrophic risk by monitoring and controlling terrorism risk aggregations to the best of its ability.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

(in millions)	2008	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

Other Intangible Assets

The following presents a summary of other intangible assets by major asset class at December 31, 2008 and 2007:

(at December 31 2008, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	**$ 1,036**	**$ 751**	**$ 285**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables(1)	**191**	**4**	**187**
Total intangible assets subject to amortization	**1,227**	**755**	**472**
Intangible assets not subject to amortization	**216**		**216**
Total other intangible assets	**$ 1,443**	**$ 755**	**$ 688**

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

(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 fair value adjustment of $191 million was recorded in connection with the merger of The St. Paul Companies, Inc. and Travelers Property Casualty Corp. in 2004 and was based on management's estimate of nominal claims and claim adjustment expense reserves and reinsurance recoverables (after adjusting for conformity with the acquirer's accounting policy on discounting of workers' compensation reserves), expected payment patterns, the April 1, 2004 U.S. Treasury spot rate yield curve, a leverage ratio assumption (reserves to statutory surplus), and a cost of capital expressed as a spread over risk-free rates. The method used calculates a risk adjustment to a risk-free discounted reserve that will, if reserves run off as expected, produce results that yield the assumed cost-of-capital on the capital supporting the loss reserves. The fair value adjustment is reported as an intangible asset on the consolidated balance sheet, and the amounts measured in accordance with the acquirer's accounting policies for insurance contracts are reported as part of the claims and claim adjustment expense reserves and reinsurance recoverables. The intangible asset will be recognized into income over the expected payment pattern. Because the time value of money and the risk adjustment (cost of capital) components of the intangible asset run off at different rates, the amount recognized in income may be a net benefit in some periods and a net expense in other periods.

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

(for the year ended December 31, in millions)	2008	2007	2006
Customer-related	**$ 96**	$ 118	$ 134
Marketing-related			3
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**30**	28	16
Total amortization expense	**$ 126**	$ 146	$ 153

Intangible asset amortization expense is estimated to be $100 million in 2009, $86 million in 2010, $69 million in 2011, $52 million in 2012 and $45 million in 2013.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INSURANCE CLAIM RESERVES

Claims and claim adjustment expense reserves were as follows:

(at December 31, in millions)	2008	2007
Property-casualty	**$ 54,646**	$ 57,619
Accident and health	**77**	81
Total	**$ 54,723**	$ 57,700

The table below is a reconciliation of beginning and ending property casualty reserve balances for claims and claim adjustment expenses.

(at and for the year ended December 31, in millions)	2008	2007	2006
Claims and claim adjustment expense reserves at beginning of year	**$ 57,619**	$ 59,202	$ 61,007
Less reinsurance recoverables on unpaid losses	**14,521**	16,358	18,112
Net reserves at beginning of year	**43,098**	42,844	42,895
Estimated claims and claim adjustment expenses for claims arising in the current year	**14,504**	12,848	12,533
Estimated decrease in claims and claim adjustment expenses for claims arising in prior years	**(1,725)**	(672)	(429)
Acquisitions(1)			538
Total increases	**12,779**	12,176	12,642
Claims and claim adjustment expense payments for claims arising in:			
Current year	**5,761**	4,528	4,279
Prior years	**7,356**	7,417	8,632
Total payments	**13,117**	11,945	12,911
Sale of subsidiary(2)	**(790)**		
Unrealized foreign exchange (gain) loss	**(658)**	23	218
Net reserves at end of year	**41,312**	43,098	42,844
Plus reinsurance recoverables on unpaid losses	**13,334**	14,521	16,358
Claims and claim adjustment expense reserves at end of year	**$ 54,646**	$ 57,619	$ 59,202

(1) In February 2006, the 2003 and prior years of account of Lloyd's Syndicates 5000 and 779 closed through reinsurance to close (RITC) into the 2004 year of account. See "Reinsurance to Close" section of note 1.

(2) In December 2008, the Company sold its United Kingdom based subsidiary, Unionamerica Holdings, Ltd., which was in runoff.

Gross claims and claim adjustment expense reserves at December 31, 2008 decreased by $2.97 billion from the same date in 2007, primarily reflecting favorable prior year reserve development during 2008, payments related to operations in runoff (including asbestos and environmental payments) and the sale of Unionamerica, partially offset by catastrophe losses incurred.

Table of Contents

7. INSURANCE CLAIM RESERVES (Continued)

Gross claims and claim adjustment expense reserves at December 31, 2007 decreased by $1.58 billion from the same date in 2006, primarily reflecting payments related to operations in runoff (including asbestos and environmental payments), prior years' hurricane losses, and favorable prior year reserve development.

The $1.19 billion decline in reinsurance recoverables in 2008 primarily reflected the sale of Unionamerica, various commutation agreements and collections on reinsurance recoverables, including those related to prior years' hurricane losses.

The $1.84 billion decline in reinsurance recoverables in 2007 primarily reflected significant collections on reinsurance recoverables, including those related to prior years' hurricane losses, operations in runoff (primarily Gulf) and various commutation agreements.

Prior Year Reserve Development

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

2008.

In 2008, estimated claims and claim adjustment expenses incurred included $1.73 billion of net favorable development for claims arising in prior years, including $1.54 billion of net favorable prior year reserve development impacting the Company's results of operations, which excludes $60 million of accretion of discount.

Business Insurance. Net favorable prior year reserve development totaled $1.12 billion in 2008, driven by better than expected loss results primarily concentrated in the general liability and commercial multi-peril product lines, an increase in anticipated ceded recoveries for older accident years in the general liability product line and better than anticipated loss development in the commercial property and commercial automobile product lines. The net favorable prior year reserve development in the general liability and commercial multi-peril lines was attributable to several factors, including improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The commercial property product line improvement occurred primarily in the 2007 accident year as a result of better than expected development 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 development 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 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 related to 2004 and prior accident years, and by a $70 million and $85 million increase to asbestos and environmental reserves, respectively.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INSURANCE CLAIM RESERVES (Continued)

Financial, Professional & International Insurance. Net favorable prior year reserve development totaled $274 million in 2008, primarily driven by better than expected loss experience in the International group. The improvements in longer-tail lines of business were attributable to several factors, including enhanced risk control and underwriting strategies throughout the International group. 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 relating to 2007 flood losses. In the Bond & Financial Products group, better than expected loss experience for the contract surety business within the fidelity and surety product line, resulting from favorable settlements on large claims (primarily from accident years prior to 2005), resulted in net favorable prior year reserve development in 2008.

Personal Insurance. Net favorable prior year reserve development in 2008 totaled $143 million, primarily driven by favorable loss experience related to Hurricane Katrina, and better than expected loss experience from recent accident years for the Homeowners and Other product line. 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 experienced improvement in 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.

2007.

In 2007, estimated claims and claim adjustment expenses incurred included $672 million of net favorable development for claims arising in prior years, including $546 million of net favorable prior year reserve development impacting the Company's results of operations, which excludes $60 million of accretion of discount.

Business Insurance. Net favorable prior year reserve development totaled $301 million in 2007, primarily driven by better than expected loss development for recent accident years in the commercial multi-peril, general liability, commercial automobile and property product lines. The commercial multi-peril and general liability product lines experienced better than anticipated loss development that was attributable to several factors, including improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The commercial automobile product line experienced better than expected loss development due to more favorable legal and judicial environments, claim handling initiatives focused on the automobile line of insurance and improvements in auto safety technology. The property product line experienced fewer than expected late reported claims related to non-catastrophe weather events that occurred late in 2006, as well as better than expected frequency and severity due in part to changes in the marketplace, such as higher deductibles and lower policy limits. In addition, the property product line experienced better than expected large loss outcomes which were partially attributable to favorable litigation resolutions. Net total prior year development in 2007 included a $185 million increase to environmental reserves.

Financial, Professional & International Insurance. Net favorable prior year reserve development in 2007 totaled $93 million, primarily reflecting better than expected loss development in international property, employers' liability, professional indemnity and motor 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 TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INSURANCE CLAIM RESERVES (Continued)

Personal Insurance. Net favorable prior year reserve development in 2007 totaled $152 million, driven by 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 2007 was attributable to a decrease in the number of claims due to changes in the marketplace, including higher deductibles and fewer small-dollar claims.

2006.

In 2006, estimated claims and claim adjustment expenses included $429 million of net favorable development for claims arising in prior years, including $394 million of net favorable prior year reserve development impacting the Company's results of operations which excludes $62 million of accretion of discount.

Business Insurance. Net favorable prior year reserve development totaled $21 million in 2006, primarily concentrated in the commercial multi-peril, general liability, property and commercial automobile lines of business, partially offset by increases for asbestos reserves and environmental reserves (as discussed in more detail in the following "Asbestos and Environmental Reserves" section), as well as reserve strengthening for assumed reinsurance business in runoff. The commercial multi-peril and liability lines of business experienced better than anticipated loss development that was attributable to several factors, including improving legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The favorable prior year reserve development in the property line of business primarily reflected less "demand surge" inflation than originally estimated for 2005 accident year non-catastrophe related and catastrophe losses. "Demand surge" refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services. The commercial automobile line of business experienced better than expected loss development which was attributable to improved legal and judicial environments, claim handling initiatives focused on the automobile line of insurance and improvements in auto safety technology. The reserve strengthening in assumed reinsurance was primarily due to changes in projected loss development driven by an unanticipated change in the claim settlement patterns of the underlying casualty exposures.

Financial, Professional & International Insurance. Net favorable prior year development in 2006 totaled $14 million.

Personal Insurance. Net favorable prior year reserve development in 2006 totaled $359 million, driven by better than expected auto bodily injury loss experience and a decline in non-catastrophe losses in the Homeowners and Other line of business, and a reduction in loss estimates for the 2005 hurricanes. In the Automobile line of business, the improvement was partially driven by better than expected results from changes in claim handling practices. These changes included practices which have allowed case reserves to be established more accurately earlier in the claim settlement process, thereby changing historical loss development patterns. In addition, industry and Company initiatives to fight fraud in several states led to a decrease in the total number of claims and a change in historical loss development patterns. In the Homeowners and Other line of business, favorable prior year reserve development was partially driven by a significant decrease in the number of claims, attributable to changes in the marketplace, including higher deductibles and fewer small-dollar claims. These changes also resulted in a change in historical loss development patterns. In addition, non-catastrophe

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INSURANCE CLAIM RESERVES (Continued)

Homeowners and Other loss experience was favorable due to continued evidence of a less than expected impact from "demand surge," which refers to significant short-term increases in building material and labor costs due to a sharp increase in demand for those materials and services. Included in net favorable prior year reserve development in 2006 was a reduction in loss estimates for catastrophes incurred in 2005, primarily due to lower than expected additional living expense losses related to Hurricane Katrina.

Asbestos and Environmental Reserves

At December 31, 2008 and 2007, the Company's claims and claim adjustment expense reserves included $3.33 billion and $4.22 billion, respectively, for asbestos and environmental-related claims, net of reinsurance. In December 2008, the Company completed the sale of Unionamerica, which comprised its United Kingdom-based runoff direct insurance and reinsurance businesses. Included in the claims and claim adjustment expense reserves transferred to the purchaser were net asbestos and environmental reserves of $265 million.

It is difficult to estimate the reserves for asbestos and environmental-related claims due to the vagaries of court coverage decisions, plaintiffs' expanded theories of liability, the risks inherent in complex litigation and other uncertainties, including without limitation, those which are set forth below.

Asbestos Reserves. 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 observed over the past three reviews have been generally consistent. The trends include:

- 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;
- fewer and less volatile 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.

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.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INSURANCE CLAIM RESERVES (Continued)

The number of policyholders tendering asbestos claims for the first time was consistent with the number tendering claims in 2007. 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.

On January 29, 2009, the Company and PPG Industries, Inc ("PPG"), along with approximately 30 other insurers of PPG, agreed in principle on a modified settlement agreement to settle asbestos-related coverage litigation under insurance policies issued to PPG. The tentative settlement agreement has been incorporated into the Modified Third Amended Plan of Reorganization ("Amended Plan") proposed as part of the Pittsburgh Corning Corp. ("PCC", which is 50% owned by PPG) bankruptcy proceeding. Pursuant to the proposed Amended Plan, which was filed on January 30, 2009, PCC, along with enumerated other companies (including PPG as well as the Company as a participating insurer), are to receive protections afforded by Section 524(g) of the Bankruptcy Code from certain asbestos-related bodily injury claims. The Company had entered into a prior agreement in principle with PPG in 2002 which was contingent upon final court approval of the Second Amended Plan of Reorganization for PCC, but in December 2006, the United States Bankruptcy Court declined to confirm that Plan of Reorganization. As a result of the December 2006 ruling, the Company removed the reserves associated with the prior agreement from the structured settlement category of the asbestos reserve and made a corresponding increase in the unallocated asbestos IBNR reserve. Under the current agreement in principle, the Company has the option to make a series of payments over the next 20 years totaling approximately $620 million to the Trust to be created under the Amended Plan, or it may elect to make a one-time discounted payment, which, as of June 30, 2009, would total approximately $430 million (approximately $400 million after reinsurance). The current agreement in principle with PPG is subject to numerous contingencies, including final court approval of the Amended Plan, and the Company has no obligation to make the settlement payment until all contingencies are satisfied. The Company's obligations under this agreement in principle continue to be included in the unallocated asbestos IBNR reserve.

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 certain policyholders an estimate of the gross ultimate exposure for indemnity and related claim adjustment expense is determined, and for those policyholders 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.

Net asbestos losses and expenses paid in 2008 were $658 million, compared with $317 million in 2007. The increase in net paid losses was the result of the ACandS payment in the third quarter of 2008. Excluding the ACandS settlement, payments in 2008 were $293 million. Approximately 59% and 20% of total net paid losses in 2008 and 2007, respectively, related to policyholders with whom the Company had entered into settlement agreements limiting the Company's liability.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INSURANCE CLAIM RESERVES (Continued)

The Company recorded a $70 million pretax increase to asbestos reserves in 2008. The Company recorded no asbestos reserve additions in 2007 and recorded a pretax asbestos reserve addition of $155 million in 2006. The 2008 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. Approximately half of the $155 million 2006 pretax reserve adjustment was due to an increase in the projected defense costs for ten policyholders. The majority of the remainder of the reserve adjustment was primarily due to continued litigation activity against smaller, peripheral defendants.

Environmental Reserves. 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.

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. The Company continues to experience a decline in both the number of new policyholders tendering claims for the first time and the number of pending lawsuits between the Company and its policyholders pertaining to coverage for environmental claims; however, the Company has experienced a moderation in the rate of that decline in recent years. The Company increased its environmental reserve by $185 million in 2007 primarily in response to this development. In 2006, the Company increased environmental reserves by $120 million primarily as a result of higher than expected defense and settlement costs driven in part by adverse judicial developments in certain states regarding the availability of coverage for environmental claims.

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 December 31, 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

Table of Contents

7. INSURANCE CLAIM RESERVES (Continued)

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 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, future developments pertaining to the Company's ability to recover reinsurance for asbestos and environmental claims and the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers. In addition, uncertainties arise from the insolvency or bankruptcy of policyholders and other defendants, although in recent years 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 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 I Item 3, 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.

Catastrophe Exposure

The Company has geographic exposure to catastrophe losses, which can be caused by various natural and man-made events including hurricanes, windstorms, tornadoes, earthquakes, hail, severe winter weather, explosions and fires. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and earthquakes may produce significant damage in larger areas, especially those that are heavily populated. The Company generally seeks to reduce its exposure to catastrophes through individual risk selection and the purchase of catastrophe reinsurance.

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; 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's occurrence, 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.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. DEBT

Debt outstanding was as follows:

(at December 31, in millions)	2008	2007
Short-term:		
Commercial paper	**$ 100**	$ 100
Zero coupon convertible notes, effective yield 4.17%, due March 3, 2009	**140**	
7.81% Private placement notes due September 16, 2009 and 2008	**2**	3
6.38% Medium-term notes due December 15, 2008		149
3.75% Senior notes due March 15, 2008		400
Total short-term debt	**242**	652
Long-term:		
8.125% Senior notes due April 15, 2010	**250**	250
7.415% Medium-term notes due August 23, 2010	**21**	21
7.22% Real estate non-recourse debt due September 1, 2011	**9**	9
7.81% Private placement notes due on various dates through 2011	**4**	6
5.375% Senior notes due June 15, 2012	**250**	250
5.00% Senior notes due March 15, 2013	**500**	500
5.50% Senior notes due December 1, 2015	**400**	400
6.25% Senior notes due June 20, 2016	**400**	400
5.75% Senior notes due December 15, 2017	**450**	450
5.80% Senior notes due May 15, 2018	**500**	
7.75% Senior notes due April 15, 2026	**200**	200
7.625% Junior subordinated debentures due December 15, 2027	**125**	125
6.375% Senior notes due March 15, 2033	**500**	500
6.75% Senior notes due June 20, 2036	**400**	400
6.25% Senior notes due June 15, 2037	**800**	800
8.50% Junior subordinated debentures due December 15, 2045	**56**	56
8.312% Junior subordinated debentures due July 1, 2046	**73**	73
6.25% Fixed-to-floating rate junior subordinated debentures due March 15, 2067	**1,000**	1,000
Zero coupon convertible notes, effective yield 4.17%, due March 3, 2009		134
Total long-term debt	**5,938**	5,574
Total debt principal	**6,180**	6,226
Unamortized fair value adjustment	**68**	83
Unamortized debt issuance costs	**(67)**	(67)
Total debt	**$ 6,181**	$ 6,242

2008 Debt Issuance In May 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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. DEBT (Continued)

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.

2008 Debt Maturities. In March 2008, the Company's $400 million, 3.75% senior notes matured and were fully paid. In December 2008, medium-term notes with a par value of $149 million and an interest rate of 6.38% matured and were fully paid.

2007 Debt Issuances In March 2007, the Company issued $1 billion aggregate principal amount of 6.25% fixed-to-floating rate junior subordinated debentures due March 15, 2067 for net proceeds of $986 million (after original issue discount and the deduction of underwriting expenses and commissions and other expenses). The debentures were issued at a discount, resulting in an effective interest rate of 6.447%. The debentures bear interest at an annual rate of 6.25% from the date of issuance to, but excluding, March 15, 2017, payable semi-annually in arrears on March 15 and September 15. From and including March 15, 2017, the debentures will bear interest at an annual rate equal to three-month LIBOR plus 2.215%, payable quarterly on March 15, June 15, September 15 and December 15 of each year. The Company has the right, on one or more occasions, to defer the payment of interest on the debentures. The Company will not be required to settle deferred interest until it has deferred interest for five consecutive years or, if earlier, made a payment of current interest during a deferral period. The Company may defer interest for up to ten consecutive years without giving rise to an event of default. Deferred interest will accumulate additional interest at an annual rate equal to the annual interest rate then applicable to the debentures.

The debentures carry a 60-year final maturity and a scheduled maturity date in year thirty. During the 180-day period ending not more than 15 and not less than ten business days prior to the scheduled maturity date, the Company is required to use commercially reasonable efforts to sell enough qualifying capital securities, or at its option, common stock, qualifying warrants, mandatorily convertible preferred stock, debt exchangeable for common equity or debt exchangeable for preferred equity to permit repayment of the debentures at the scheduled maturity date. If any debentures remain outstanding after the scheduled maturity date, the unpaid amount will remain outstanding until the Company has raised sufficient proceeds from the sale of qualifying capital securities or, at its option, common stock, qualifying warrants, mandatorily convertible preferred stock, debt exchangeable for common equity or debt exchangeable for preferred equity to permit the repayment in full of the debentures. If there are remaining debentures at the final maturity date, the Company is required to redeem the debentures using any source of funds. Qualifying capital securities are securities (other than common stock, qualifying warrants, mandatorily convertible preferred stock, debt exchangeable for common equity, and debt exchangeable for preferred equity) which generally are treated by the ratings agencies as having similar equity content to the debentures.

The Company can redeem the debentures at its option, in whole or in part, at any time on or after March 15, 2017 at a redemption price of 100% of the principal amount being redeemed plus accrued but unpaid interest. The Company can redeem the debentures at its option prior to March 15, 2017 (a) in whole at any time or in part from time to time or (b) in whole, but not in part, in the event of certain tax or rating agency events relating to the debentures, at a redemption price equal to the greater of 100% of the principal amount being redeemed and the applicable make-whole amount, in each case plus any accrued and unpaid interest.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. DEBT (Continued)

In connection with the offering of the debentures, the Company entered into a "replacement capital covenant" for the benefit of holders of one or more designated series of the Company's indebtedness (which will initially be the 6.750% senior notes due 2036). Under the terms of the replacement capital covenant, if the Company redeems the debentures at any time prior to March 15, 2047 it can only do so with the proceeds of securities that are treated by the rating agencies as having similar equity content to the debentures.

In May 2007, the Company issued $250 million aggregate principal amount of 5.375% senior notes due June 15, 2012 (the 2012 senior notes), $450 million aggregate principal amount of 5.750% senior notes due December 15, 2017 (the 2017 senior notes), and $800 million aggregate principal amount of 6.250% senior notes due June 15, 2037 (the 2037 senior notes). The total net proceeds of these three senior note issuances, after original issuance discounts and the deduction of underwriting expenses and commissions and other expenses, were approximately $1.47 billion. Interest on each of the senior note issuances is payable semi-annually on June 15 and December 15, commencing December 15, 2007. Each series of senior notes is 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 12.5 basis points for the 2012 senior notes, 15 basis points for the 2017 senior notes and 20 basis points for the 2037 senior notes. The Company applied a portion of the net proceeds of this offering to repay approximately $442 million of senior notes maturing on August 16, 2007 and to repay approximately $42 million of medium-term notes maturing in the third quarter of 2007. The remaining proceeds will be used for general corporate purposes. Prior to applying these proceeds, the Company invested them in investment grade, marketable securities.

2007 Debt Redemptions and Maturities In January 2007, the Company redeemed $81 million of 8.47% subordinated debentures originally issued in 1997 and due January 10, 2027. The debentures were redeemable by the Company on or after January 10, 2007. In January 1997, USF&G Capital II, a business trust, issued $100 million of capital securities, the proceeds of which, along with $3 million in capital provided by the Company, were used to purchase the subordinated debentures issued by USF&G Corporation and subsequently assumed by the Company after the merger of The St. Paul Companies Inc. (SPC) and Travelers Property Casualty Corp. (TPC). During the period prior to redemption, the Company had repurchased and retired $22 million of the debentures in open market transactions. Upon the Company's redemption of the remaining $81 million of subordinated debentures in January 2007, USF&G Capital II in turn used the proceeds to redeem its remaining capital securities outstanding. USF&G Capital II was then liquidated, and the Company received a $3 million distribution of capital. The Company recorded a $3 million pretax gain on the redemption of the subordinated debentures, due to the remaining unamortized fair value adjustment recorded at the merger date, less the redemption premium paid.

In March 2007, the Company's $500 million, 5.75% senior notes matured and were fully paid.

In April 2007, the Company completed the redemption of its outstanding $893 million, 4.50% convertible junior subordinated notes due in 2032 (the notes). The notes were originally issued by TPC, and the Company assumed certain obligations relating to the notes pursuant to a Second Supplemental

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. DEBT (Continued)

Indenture dated April 1, 2004. Each note had a principal amount of $25.00. The redemption price for each note was $25.5625 plus $0.009375 of accrued and unpaid interest. Any note called for redemption could be surrendered for conversion into common stock before the close of business on April 17, 2007. Each note was convertible into 0.4684 shares of common stock of The Travelers Companies, Inc. Holders of $36 million of the notes tendered their certificates in exchange for the issuance of 670,910 of the Company's common shares. The remaining $857 million of notes were redeemed for cash, along with accrued interest to the date of redemption. The Company recorded a $39 million pretax loss ($25 million after-tax) in other revenues in the second quarter of 2007 related to the redemption, consisting of the redemption premium paid and the write-off of remaining unamortized issuance costs.

In August 2007, the Company's $442 million, 5.01% senior notes matured and were fully paid.

In 2007, medium-term notes with a cumulative par value of $72 million and interest rates ranging from 6.85% to 7.37% matured and were fully paid.

Description of Debt

Commercial Paper The Company maintains an $800 million commercial paper program with $1 billion of back-up liquidity, consisting entirely of a bank credit agreement. Interest rates on commercial paper issued in 2008 ranged from 0.5% to 4.6%, and in 2007 ranged from 4.7% to 5.7%.

Medium-Term Notes The medium-term notes outstanding at December 31, 2008 bear an interest rate of 7.415% and mature in 2010. During 2008 and 2007, medium-term notes having a par value of $149 million and $72 million, respectively, matured.

Senior Notes The Company's various senior debt issues are unsecured obligations that rank equally with one another. Interest payments are made semi-annually. The Company generally may redeem some or all of the notes prior to maturity in accordance with terms unique to each debt instrument.

Zero Coupon Convertible Notes The zero coupon convertible notes mature in March 2009, but are redeemable at the option of the Company for an amount equal to the original issue price plus accreted original issue discount. Each note is convertible at the option of the holder at any time on or prior to maturity, unless previously redeemed by the Company, into common stock of the Company at a conversion rate of 16.6433 shares for each $1,000 principal amount of notes. If all notes outstanding at December 31, 2008 were converted, the Company would issue 2.4 million of its common shares.

Junior Subordinated Debentures The Company's $1 billion aggregate principal amount of 6.25% fixed-to-floating rate junior subordinated debentures are described in the "2007 Debt Issuances" section above. The Company's other three junior subordinated debenture instruments are all similar in nature. Three separate business trusts issued preferred securities to investors and used the proceeds to purchase the Company's subordinated debentures. Interest on each of the instruments is paid semi-annually.

The Company's consolidated balance sheet includes the debt instruments acquired in the merger, which were recorded at fair value as of the acquisition date. The resulting fair value adjustment is being amortized over the remaining life of the respective debt instruments using the effective-interest method. The amortization of the fair value adjustment reduced interest expense by $15 million and $19 million for the years ended December 31, 2008 and 2007, respectively.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. DEBT (Continued)

The following table presents merger-related unamortized fair value adjustments and the related effective interest rate:

(in millions)	Issue Rate	Maturity Date	Unamortized Fair Value Purchase Adjustment at December 31, 2008	2007	Effective Interest Rate to Maturity
Senior notes	8.125%	Apr. 2010	**$ 12**	$ 21	4.257%
Medium-term notes					
	7.415%	Aug. 2010	**1**	6	3.310%
Subordinated debentures					
	7.625%	Dec. 2027	**20**	20	6.147%
	8.500%	Dec. 2045	**16**	16	6.362%
	8.312%	Jul. 2046	**19**	20	6.362%
Total			**$ 68**	$ 83	

On April 1, 2004, The Travelers Companies, Inc. fully and unconditionally guaranteed the payment of all principal, premiums, if any, and interest on certain debt obligations of its subsidiaries TPC and Travelers Insurance Group Holdings Inc. (TIGHI). The guarantees pertain to the $500 million 5.00% notes due 2013, the $200 million 7.75% notes due 2026 and the $500 million 6.375% notes due 2033.

Maturities The amount of debt obligations, other than commercial paper, that become due in each of the next five years is as follows: 2009, $143 million; 2010, $273 million; 2011, $11 million; 2012, $250 million; and 2013, $500 million.

Line of Credit Agreement

On June 10, 2005, the Company entered into a $1.0 billion, five-year revolving credit agreement with a syndicate of financial institutions. Pursuant to covenants in the credit agreement, the Company must maintain an excess of consolidated net worth over goodwill and other intangible assets of not less than $10 billion at all times. The Company must also maintain a ratio of total consolidated debt to the sum of total consolidated debt plus consolidated net worth of not greater than 0.40 to 1.00. In addition, the credit agreement contains other customary restrictive covenants as well as certain customary events of default, including with respect to a change in control. At December 31, 2008, the Company was in compliance with these covenants and all other covenants related to its outstanding debt instruments. There was no amount outstanding under the credit agreement as of December 31, 2008 or 2007.

Shelf Registration

In December 2008, the Company filed with the Securities and Exchange Commission a universal shelf registration statement for the potential offering and sale of securities to replace its expiring universal shelf registration statement. The Company may offer these securities from time to time at prices and on other terms to be determined at the time of offering. During 2008 and 2007, the Company issued securities with principal amounts of $500 million and $2.50 billion, respectively, (as described above) under the prior shelf registration statement.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. SHAREHOLDERS' EQUITY AND DIVIDEND AVAILABILITY

Preferred Stock

The Company's preferred shareholders' equity represents the par value of preferred shares outstanding that the Company assumed in the merger related to The St. Paul Companies, Inc. Stock Ownership Plan (SOP) Trust which was subsequently merged into The Travelers 401(k) Savings Plan (the 401(k) Savings Plan). The SOP Trust may at any time convert any or all of the preferred shares into shares of the Company's common stock at a rate of eight shares of common stock for each preferred share. The board of directors has reserved a sufficient number of authorized common shares to satisfy the conversion of all preferred shares issued to the SOP Trust and the redemption of preferred shares to meet employee distribution requirements. Upon the redemption of preferred shares, the Company will issue shares of common stock to the trust to fulfill the redemption obligations. See note 13. Holders of the preferred stock have a preference upon liquidation, dissolution or winding up of the Company of $100 per share.

Common Stock

The Company is governed by the Minnesota Business Corporation Act. All authorized shares of voting common stock have no par value. Shares of common stock reacquired are considered authorized and unissued shares. The number of authorized shares of the company is 1.75 billion. The articles of incorporation allow the Company to issue five million undesignated shares. The board of directors may designate the type of shares and set the terms thereof. The board designated 1,450,000 shares as Series B Convertible Preferred Stock in connection with the 401(k) Savings Plan.

Treasury Stock

In May 2006, the Company's board of directors authorized the repurchase of up to $2 billion of shares of the Company's common stock. In January 2007, the board of directors authorized an additional $3 billion of share repurchase capacity. In January 2008, the Company's board of directors approved a $5 billion increase to the share repurchase authorization. Under these authorizations, 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 authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including corporate and regulatory requirements, price, catastrophe losses and other market conditions. The following table summarizes repurchase activity in 2008 and remaining repurchase capacity at December 31, 2008.

Quarterly Period Ending	Number of shares purchased	Cost of shares repurchased	Average price paid per share	Remaining capacity under share repurchase authorization
March 31, 2008	20,831,251	$1,000,332,704	$ 48.02	$ 4,931,853,967
June 30, 2008	15,287,182	750,014,344	49.06	4,181,839,623
September 30, 2008	6,197,529	271,984,984	43.89	3,909,854,639
December 31, 2008	2,712,550	99,997,100	36.86	3,809,857,539
Total	45,028,512	$2,122,329,132	$ 47.13	$ 3,809,857,539

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. SHAREHOLDERS' EQUITY AND DIVIDEND AVAILABILITY (Continued)

Since the inception of the authorization in May 2006 through December 31, 2008, the Company has repurchased a cumulative total of 123.9 million shares for a total cost of $6.19 billion, or $49.98 per share.

The Company's Amended and Restated 2004 Stock Incentive Plan, the legacy SPC 1994 Stock Incentives Plan and the legacy TPC 2002 Incentive Plan provide settlement alternatives to employees in which the Company repurchases shares to cover tax withholding costs and exercise costs. During the years ended December 31, 2008 and 2007, the Company purchased $38 million and $90 million, respectively, of its common stock under these plans.

Common shares acquired are reported as treasury stock in the consolidated balance sheet.

Dividend Availability

The Company's insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of insurance regulatory authorities. A maximum of $3.07 billion is available in 2009 for such dividends without prior approval of the Connecticut Insurance Department for Connecticut-domiciled subsidiaries and the Minnesota Department of Commerce for Minnesota-domiciled subsidiaries. The holding company received $3.70 billion of dividends from its domestic insurance subsidiaries in 2008.

Statutory Net Income and Surplus

Statutory net income of the Company's insurance subsidiaries was $4.10 billion, $4.86 billion, and $4.27 billion for the years ended December 31, 2008, 2007 and 2006, respectively. Statutory capital and surplus of the Company's insurance subsidiaries was $21.49 billion and $22.88 billion at December 31, 2008 and 2007, respectively.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. SHAREHOLDERS' EQUITY AND DIVIDEND AVAILABILITY (Continued)

Accumulated Other Changes in Equity from Nonowner Sources, Net of Tax

Changes in each component of Accumulated Other Changes in Equity from Nonowner Sources were as follows:

(at and for the year ended December 31, in millions)	Net Unrealized Gains (Losses) on Investment Securities	Net Benefit Plan Assets and Obligations Recognized in Equity(1)	Other(2)	Accumulated Other Changes in Equity from Nonowner Sources
Balance, December 31, 2005	**$ 327**	**$ (14)**	**$ 38**	**$ 351**
Net change in unrealized gains on investment securities, net of tax expense of $81	146			146
Less: Reclassification adjustment for net realized gains included in net income, net of tax benefit of $(11)	(20)			(20)
Adjustment to initially apply FAS 158, net of tax benefit of $(43)		(80)		(80)
Change in other, net of tax benefit of $(5)			55	55
Current period change	126	(80)	55	101
Balance, December 31, 2006	**453**	**(94)**	**93**	**452**
Net change in unrealized gains on investment securities, net of tax expense of $151	280			280
Less: Reclassification adjustment for net realized gains included in net income, net of tax benefit of $(60)	(113)			(113)
Net change in benefit plan assets and obligations recognized in equity, net of tax benefit of $(30)		(50)		(50)
Change in other, net of tax expense of $30			101	101
Current period change	167	(50)	101	218
Balance, December 31, 2007	**620**	**(144)**	**194**	**670**
Net change in unrealized gains on investment securities, net of tax benefit of **$(584)**	**(1,056)**			**(1,056)**
Less: Reclassification adjustment for net realized gains included in net income, net of tax expense of **$157**	**292**			**292**
Net change in benefit plan assets and obligations recognized in equity, net of tax benefit of **$(212)**		**(405)**		**(405)**
Change in other, net of tax benefit of **$(47)**			**(401)**	**(401)**
Current period change	**(764)**	**(405)**	**(401)**	**(1,570)**
Balance, December 31, 2008	**$ (144)**	**$ (549)**	**$ (207)**	**$ (900)**

(1) Activity in 2006 represented the adjustment to initially apply the provisions of FAS 158. Activity in 2008 and 2007 represented net changes in assets and obligations related to the Company's employee benefit plans recognized in equity from nonowner sources.

(2) Includes foreign currency translation adjustments and hedging activities. Activity in 2008 primarily represented foreign currency translation adjustments.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. EARNINGS PER SHARE

Basic EPS 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 EPS 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:

(for the year ended December 31, in millions, except per share amounts)	2008	2007	2006
Basic			
Net income, as reported	**$ 2,924**	$ 4,601	$ 4,208
Preferred stock dividends, net of taxes	**(4)**	(4)	(5)
Net income available to common shareholders basic	**$ 2,920**	$ 4,597	$ 4,203
Diluted			
Net income available to common shareholders	**$ 2,920**	$ 4,597	$ 4,203
Effect of dilutive securities:			
Convertible preferred stock	**4**	4	5
Zero coupon convertible notes	**4**	4	4
Convertible junior subordinated notes(1)		8	26
Net income available to common shareholders diluted	**$ 2,928**	$ 4,613	$ 4,238
Common Shares			
Basic			
Weighted average shares outstanding	**596.4**	652.7	687.1
Diluted			
Weighted average shares outstanding	**596.4**	652.7	687.1
Weighted average effects of dilutive securities:			
Stock options and other incentive plans	**6.1**	9.4	7.1
Convertible preferred stock	**2.4**	2.9	3.4
Zero coupon convertible notes	**2.4**	2.4	2.4
Convertible junior subordinated notes(1)		4.9	16.7
Total	**607.3**	672.3	716.7
Net income Per Common Share			
Basic	**$ 4.90**	$ 7.04	$ 6.12
Diluted	**$ 4.82**	$ 6.86	$ 5.91

(1) Redeemed in April 2007. See note 8.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. INCOME TAXES

(for the year ended December 31, in millions)	2008	2007	2006
Composition of income tax expense (benefit) included in consolidated statement of income			
Current expense:			
Federal	**$ 763**	$ 1,279	$ 943
Foreign	**68**	103	64
State	**10**	3	9
Total current tax expense	**841**	1,385	1,016
Deferred expense (benefit):			
Federal	**(58)**	230	521
Foreign	**9**		(20)
State			
Total deferred tax expense (benefit)	**(49)**	230	501
Total income tax expense included in consolidated statement of income	**792**	1,615	1,517
Composition of income tax included in common shareholders' equity			
Expense (benefit) relating to stock-based compensation, the change in unrealized appreciation on investments, unrealized loss on foreign exchange and unrealized loss on derivatives, and other comprehensive income	**(701)**	47	(7)
Total income tax expense included in consolidated financial statements	**$ 91**	$ 1,662	$ 1,510
Effective tax rate			
Income before federal, foreign and state income taxes	**$ 3,716**	$ 6,216	$ 5,725
Statutory tax rate	**35%**	35%	35%
Expected federal income tax expense	**1,301**	2,176	2,004
Tax effect of:			
Nontaxable investment income	**(480)**	(465)	(421)
Other, net	**(29)**	(96)	(66)
Total income tax expense	**$ 792**	$ 1,615	$ 1,517
Effective tax rate	**21%**	26%	26%

The current income tax payable was $145 million and $176 million at December 31, 2008 and 2007, respectively, and is included in other liabilities in the consolidated balance sheet.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. INCOME TAXES (Continued)

The net deferred tax asset comprises the tax effects of temporary differences related to the following assets and liabilities:

(at December 31, in millions)	2008	2007
Deferred tax assets		
Claims and claim adjustment expense reserves	**$ 1,217**	$ 1,352
Unearned premium reserves	**663**	661
Investments	**105**	
Other	**769**	700
Total gross deferred tax assets	**2,754**	2,713
Less valuation allowance		36
Net deferred tax assets	**2,754**	2,677
Deferred tax liabilities		
Deferred acquisition costs	**575**	578
Investments		704
Internally-developed software	**100**	77
Other	**114**	111
Total gross deferred tax liabilities	**789**	1,470
Total deferred income taxes	**$ 1,965**	$ 1,207

If the Company determines that any of its deferred tax assets will not result in future tax benefits, a valuation allowance must be established for the portion of these assets that are not expected to be realized. The net decreases in the valuation allowance for deferred tax assets were $36 million and $46 million at December 31, 2008 and 2007, respectively, relating in each year to foreign operations. Based upon a review of the Company's anticipated future taxable income, and also including all other available evidence, both positive and negative, the Company's management concluded that it is more likely than not that the net deferred tax assets will be realized.

For tax return purposes, as of December 31, 2008, the Company had net operating loss (NOL) carryforwards on a regular tax basis and an alternative minimum tax (AMT) basis of approximately $81 million and $47 million, respectively. These NOL carryforwards expire, if unused, in 2017 and 2018. The amount and timing of realizing the benefit of NOL carryforwards depends on future taxable income and limitations imposed by tax laws. The benefit of the NOL carryforward has been recognized in the consolidated financial statements.

U.S. income taxes have not been provided on $317 million of the Company's foreign operations' undistributed earnings as of December 31, 2008, as such earnings are intended to be permanently reinvested in those operations. Furthermore, any taxes paid to foreign governments on these earnings may be used as credits against the U.S. tax on any dividend distributions from such earnings.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. The adoption of FIN 48 did not have a material effect on the

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. INCOME TAXES (Continued)

Company's financial position. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in millions)	2008	2007
Balance at January 1	**$ 143**	$ 339
Additions for tax positions of prior years	**4**	2
Reductions for tax positions of prior years	**(30)**	(172)
Additions based on tax positions related to current year	**3**	23
Reductions based on tax positions related to current year	**(10)**	(49)
Balance at December 31	**$ 110**	$ 143

Included in the balances at December 31, 2008 and 2007 were $17 million and $42 million, respectively, of unrecognized tax benefits that, if recognized, would affect the annual effective tax rate. Also included in the balances at those dates were $93 million and $101 million, respectively, of tax positions for which the ultimate deductibility is certain, but for which there is uncertainty about the timing of deductibility. The timing of such deductibility would not affect the annual effective tax rate.

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes. During the years ended December 31, 2008 and 2007, the Company recognized approximately $93 million and $9 million in interest, respectively. The Company had approximately $119 million and $26 million for the payment of interest accrued at December 31, 2008 and 2007, respectively.

As of December 31, 2007, the Company effectively settled Internal Revenue Service (IRS) tax examinations for all years through December 31, 2004. As a result, the Company recorded after-tax benefits of $86 million in its consolidated statement of income for the year ended December 31, 2007. In addition, $63 million of previously unrecognized tax benefits related to the IRS settlement were recognized through a reduction of goodwill in 2007.

The IRS is conducting an examination of the Company's U.S. income tax returns for 2005 through 2006. The Company does not expect any significant changes to its liability for unrecognized tax benefits during the next twelve months.

12. SHARE-BASED INCENTIVE COMPENSATION

The Company has a share-based incentive compensation plan, The Travelers Companies, Inc. Amended and Restated 2004 Stock Incentive Plan (the 2004 Incentive Plan), which replaced prior share-based incentive compensation plans (legacy plans). The purposes of the 2004 Incentive Plan are to align the interests of the Company's non-employee directors, executive officers and other employees with those of the Company's shareholders, and to attract and retain personnel by providing incentives in the form of stock-based awards. The 2004 Incentive Plan permits grants of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock, deferred stock units, performance awards and other stock-based or stock-denominated awards with respect to the Company's common stock. The number of shares of the Company's common stock authorized for grant under the 2004 Incentive Plan is 35 million shares, subject to additional shares that may be available for awards as described below. The Company has a policy of issuing new shares to settle the exercise of stock option awards and the vesting of other equity awards.

Table of Contents

12. SHARE-BASED INCENTIVE COMPENSATION (Continued)

In connection with the adoption of the 2004 Incentive Plan, legacy share-based incentive compensation plans were terminated. Outstanding grants were not affected by the termination of these legacy plans, including the grant of reload options related to prior option grants under the legacy plans.

The 2004 Incentive Plan is the only plan pursuant to which future stock-based awards may be granted. In addition to the 35 million shares initially authorized for issuance under the 2004 Incentive Plan, the following will not be counted towards the 35 million shares available and will be available for future grants under the 2004 Incentive Plan: (i) shares of common stock subject to an award that expires unexercised, that is forfeited, terminated or canceled, that is settled in cash or other forms of property, or otherwise does not result in the issuance of shares of common stock, in whole or in part; (ii) shares that are used to pay the exercise price of stock options and shares used to pay withholding taxes on awards generally; and (iii) shares purchased by the Company on the open market using cash option exercise proceeds; provided, however, that the increase in the number of shares of common stock available for grant pursuant to such market purchases shall not be greater than the number that could be repurchased at fair market value on the date of exercise of the stock option giving rise to such option proceeds. These provisions also apply to awards granted under the legacy share-based incentive compensation plans that were outstanding on the effective date of the 2004 Incentive Plan.

The Company also has a compensation program for non-employee directors (the Director Compensation Program). Under the Director Compensation Program, non-employee directors' compensation consists of an annual retainer, a deferred stock award, committee chair fees and a lead director fee. Each non-employee director may choose to receive all or a portion of his or her annual retainer in the form of cash or deferred stock units which vest upon grant. The annual deferred stock awards vest in full on the date of the one-year anniversary of the annual meeting of shareholders of the Company occurring in the year of the award, subject to continued service. Any of the deferred stock awards may accumulate, including reinvestment dividends, until distribution either in a lump sum six months after termination of service as a director or, if the director so elects, in annual installments beginning at least six months following termination of service as a director. The shares of deferred stock units issued under the Director Compensation Program are awarded under the 2004 Incentive Plan.

Stock Option Awards

Stock option awards granted to eligible officers and key employees have a ten-year term. Prior to January 1, 2007, stock options were granted with an exercise price equal to the fair market value of the Company's common stock on the day preceding the date of grant. Beginning January 1, 2007, all stock options are granted with an exercise price equal to the closing price of the Company's common stock on the date of grant. The stock options granted generally vest upon meeting certain years of service criteria. Except as the Compensation Committee of the Board may allow in the future, stock options cannot be sold or transferred by the participant. The vesting terms for stock options granted under the 2004 Incentive Plan and legacy plans are generally as follows:

Period Option granted	Option Award Vesting terms
2008, 2007 and 2006	Options vest at end of 3-year period (cliff vest)

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SHARE-BASED INCENTIVE COMPENSATION (Continued)

Period Option granted	Option Award Vesting terms
April 2004 through 2005	Options vest over 4-year period, 50% on 2nd anniversary of the date of grant, and 25% of the option shares vest on each of the 3rd and 4th anniversaries of the grant date. Certain 2005 special option shares vest 50% on each of the 4th and 5th anniversaries of the grant date.
Prior to April 2004	Options vest over 4-year period, 25% each year on the anniversary of the grant date; or options vest over 5-year period, 20% each year on the anniversary of the grant date.

In addition to the stock option awards described above, certain stock option awards that were granted under legacy plans permit an employee exercising an option to be granted a new option (a reload option) at an exercise price equal to the closing price of the Company's common stock on the date on which the original option is exercised. The reload option is permitted on certain stock option awards granted prior to January 2003 at an amount equal to the number of shares of the common stock used to satisfy both the exercise price and withholding taxes due upon exercise of an option and vest either six months or one year after the grant date and are exercisable for the remaining term of the related original option.

The fair value of each option award is estimated on the date of grant by application of a variation of the Black-Scholes option pricing model using the assumptions noted in the following table. The expected term of newly granted stock options is the time to vest plus half the remaining time to expiration. This considers the vesting restriction and represents an even pattern of exercise behavior over the remaining term. Reload options are exercisable for the remaining term of the original option and therefore would generally have a shorter expected term. The expected volatility is based on the average historical volatility of the common stock of an industry peer group of entities, due to the limited Company stock history, over the estimated option term based on the mid-month of the option grant. The expected dividend is based upon the Company's current quarter dividend annualized and assumed to be constant over the expected option term. The risk-free interest rate for each option is the interpolated market yield for the mid-month of the option grant on a U.S. Treasury bill with a term comparable to the expected option term of the granted stock option. Shares received through option exercises under the reload program are subject to restriction on sale. A 10% discount, as measured by the estimated cost of protecting against changes in market value, has been applied to the fair value of reload options granted to reflect these sales restrictions. The following assumptions were used in estimating the fair value of options on grant date for the years ended December 31, 2008, 2007 and 2006:

2008	Original Grants	Reload Grants
Expected term of stock options	**6 - 7 years**	**1 - 3 years**
Expected volatility of the Company's stock	**22.8% - 29.9%**	**19.1% - 31.4%**
Weighted average volatility	**23.1%**	**23.9%**
Expected annual dividend per share	**$1.16 - $1.20**	**$1.16 - $1.20**
Risk-free rate	**2.61% - 3.75%**	**1.36% - 3.42%**

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SHARE-BASED INCENTIVE COMPENSATION (Continued)

2007	Original Grants	Reload Grants
Expected term of stock options	6 - 7 years	1 - 3 years
Expected volatility of the Company's stock	22.5% - 26.9%	14.3% - 19.7%
Weighted average volatility	24.9%	16.5%
Expected annual dividend per share	$1.04 - $1.16	$1.04 - $1.16
Risk-free rate	3.79% - 5.10%	3.34% - 5.06%

2006	Original Grants	Reload Grants
Expected term of stock options	5 - 7 years	1 - 4 years
Expected volatility of the Company's stock	22.6% - 32.0%	15.9% - 30.4%
Weighted average volatility	30.3%	18.0%
Expected annual dividend per share	$0.92 - $1.04	$0.92 - $1.04
Risk-free rate	4.30% - 5.10%	4.30% - 5.17%

A summary of stock option activity under the Company's 2004 Incentive Plan and legacy share-based incentive compensation plans as of and for the year ended December 31, 2008 is as follows:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value ($ in millions)
Outstanding, beginning of year	**34,499,327**	**$ 44.33**		
Granted:				
Original	**2,767,362**	**47.06**		
Reload	**143,117**	**49.68**		
Exercised	**(2,543,757)**	**33.81**		
Forfeited or expired	**(2,066,276)**	**51.04**		
Outstanding, end of year	**32,799,773**	**$ 44.97**	**4.3 years**	**$ 92**
Vested at end of year(1)	**27,213,550**	**$ 44.97**	**3.6 years**	**$ 80**
Exercisable at end of year	**24,314,011**	**$ 44.76**	**3.1 years**	**$ 77**

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

The following table presents additional information regarding original and reload grants for the years ended December 31, 2008, 2007 and 2006.

2008	Original Grants	Reload Grants
Weighted average grant-date fair value of options granted (per share)	$ 9.56	$ 5.80
Total intrinsic value of options exercised during the year (in millions)	$ 33	$ 1

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SHARE-BASED INCENTIVE COMPENSATION (Continued)

2007	**Original Grants**	**Reload Grants**
Weighted average grant-date fair value of options granted (per share)	$ 14.36	$ 5.31
Total intrinsic value of options exercised during the year (in millions)	$ 90	$ 5

2006	**Original Grants**	**Reload Grants**
Weighted average grant-date fair value of options granted (per share)	$ 13.60	$ 4.94
Total intrinsic value of options exercised during the year (in millions)	$ 74	$ 5

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

The Company, commencing with equity grants on or after January 1, 2007, issues restricted stock unit awards to eligible officers and key employees under the Equity Awards program established pursuant to the 2004 Incentive Plan. A restricted stock unit represents the right to receive a share of common stock. These restricted stock unit awards are granted at market price, generally vest three years from the date of grant, do not have voting rights and the underlying shares of common stock are not issued until the vesting criteria is satisfied. Previously equity awards were granted under the Capital Accumulation Program (CAP) which was discontinued following the issuance of CAP awards in February 2006. Awards issued under CAP were in the form of restricted stock and the number of shares included in the restricted stock award was calculated at a 10% discount from the market price on the date of the award and generally vested in full after a two-year period from the date of grant. During the vesting period, the stock generally could not be sold or transferred by the participant, who was required to render service to the Company during the restricted period.

The Company also has a Performance Share Awards Program pursuant to the 2004 Incentive Plan which became effective beginning in 2006. Under the program, the Company may issue performance share awards to certain employees of the Company who hold positions of Vice President (or its equivalent) or above. The performance awards represent shares that provide the recipient the right to earn shares of the Company's common stock based upon the Company's attainment of certain performance goals. The performance goals for performance awards are based on the Company's adjusted return on equity over a three-year performance period. Vesting of any performance shares is contingent upon the Company attaining the relevant performance period minimum threshold return on equity. If the performance period return on equity is below the minimum threshold, none of the shares will vest; if performance meets or exceeds the minimum performance threshold, between 50%-160% of the performance shares will vest, depending on the actual return on equity attained.

The fair value of restricted stock units, deferred stock and performance shares is measured at the market price of the Company stock at date of grant.

The total fair value of shares that vested during the years ended December 31, 2008, 2007 and 2006 was $82 million, $99 million and $59 million, respectively.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SHARE-BASED INCENTIVE COMPENSATION (Continued)

A summary of restricted stock units, deferred stock awards and performance share activity under the Company's 2004 Incentive Plan and legacy plans as of and for the year ended December 31, 2008 is as follows:

	Restricted and Deferred Shares		Performance Shares	
Other Equity Instruments	Number	Weighted Average Grant-Date Fair Value	Number	Weighted Average Grant-Date Fair Value
Outstanding, beginning of year	3,590,164	$ 44.45	1,252,451	$ 49.12
Granted	1,315,106	47.20	788,677	47.31
Vested(1)	(1,410,764)	39.94	(579,510)	44.80
Forfeited	(143,552)	46.72	(37,909)	48.87
Performance-based adjustment(2)			26,319	49.78
Outstanding, end of year	3,350,954	$ 47.33	1,450,028	$ 49.87

(1) Represents awards for which the requisite service has been rendered including those that are retirement eligible. Excludes performance shares which remain subject to attainment of a performance condition.

(2) Represents the current year change in estimated performance shares from the initial grant, for grant years 2008, 2007 and 2006, to reflect the attainment of certain performance levels during the performance measurement period.

On February 3, 2009, the Company, under The Travelers Companies, Inc. Amended and Restated 2004 Stock Incentive Plan, granted 2,370,043 common stock awards in the form of restricted stock units, deferred stock and performance share awards to participating officers, non-employee directors and other key employees. The restricted stock units and deferred stock awards totaled 1,437,922 shares while the performance share awards totaled 932,121 shares. The fair value per share attributable to the common stock awards on the date of grant was $39.19.

Share-Based Compensation Recognition

The compensation cost for awards subject to a service condition is based upon the number of equity instruments for which the requisite service period is expected to be rendered. Awards granted to retiree-eligible or to employees who become retiree-eligible before an award's vesting date are considered to have met the requisite service condition. The compensation cost for awards subject to a performance condition is based upon the probable outcome of the performance condition. The compensation cost reflects an estimated annual forfeiture rate of 5% over the requisite service period of the awards. That estimate is revised if subsequent information indicates that the actual number of instruments expected to vest is likely to differ from previous estimates. Compensation costs for awards are recognized on a straight-line basis over the requisite service period. For awards that have a graded vesting schedule, the compensation cost is recognized on a straight-line basis over the requisite service period for each separate vesting portion of the award as if the award was, in substance, multiple awards. The total compensation cost for all share-based incentive compensation awards recognized in earnings for the years ended December 31, 2008, 2007 and 2006 was $123 million, $125 million and $147 million, respectively. Included in those amounts were approximately $2 million, $6 million and

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SHARE-BASED INCENTIVE COMPENSATION (Continued)

$12 million respectively, of compensation costs related to awards granted, prior to the adoption of FAS 123R, to retiree-eligible employees or to employees who became retiree-eligible before the awards vesting date. Also included are compensation cost adjustments of $6 million, $5 million and $2 million, for the years ended December 31, 2008, 2007 and 2006, respectively, that reflected the cost associated with the updated estimate of performance shares due to attaining certain performance levels from the date of the initial grant of the performance awards. The related tax benefits recognized in earnings were $42 million for the each of the years ended December 31, 2008 and 2007 and $51 million for the year ended December 31, 2006.

As of December 31, 2008, there was $112 million of total unrecognized compensation cost related to all nonvested share-based incentive compensation awards. This includes stock options, restricted stock, restricted stock units, deferred stock and performance shares granted under the Company's 2004 Incentive Plan and legacy TPC and legacy SPC share-based incentive compensation plans. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.7 years.

Cash received from the exercise of employee stock options under share-based compensation plans totaled $89 million and $218 million in 2008 and 2007, respectively. The tax benefit realized for tax deductions from employee stock options exercised during 2008 and 2007 totaled $12 million and $32 million, respectively.

13. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

The Company sponsors a qualified non-contributory defined benefit pension plan, which covers substantially all employees and provides benefits under a cash balance formula, except that employees satisfying certain age and service requirements remain covered by a prior final average pay formula. In addition, the Company and TPC sponsor nonqualified defined benefit pension plans which cover certain highly-compensated employees and also sponsor postretirement health and life insurance benefit plans for employees satisfying certain age and service requirements and for certain retirees.

As discussed in note 1, the Company adopted the provisions of FAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* at December 31, 2006.

The incremental effects of applying FAS 158 on individual line items of the Company's balance sheet at December 31, 2006 were as follows:

(in millions)	Before Application of FAS 158	Adjustments	After Application of FAS 158
Deferred tax asset	$ 1,493	$ 43	$ 1,536
Other assets	2,742	(155)	2,587
Total assets	113,873	(112)	113,761
Other liabilities	6,674	(32)	6,642
Total liabilities	88,658	(32)	88,626
Accumulated other changes in equity from nonowner sources	532	(80)	452
Total shareholders' equity	25,215	(80)	25,135

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS (Continued)

Obligations and Funded Status

The following tables summarize the funded status, obligations and amounts recognized in the consolidated balance sheet for the Company's benefit plans. The Company uses a December 31 measurement date for its pension and postretirement benefit plans.

	Qualified Domestic Plan		Nonqualified and Foreign Plans		Total	
(for the year ended December 31, in millions)	2008	2007	2008	2007	2008	2007
Change in projected benefit obligation						
Benefit obligation at beginning of year	**$ 1,841**	$ 1,752	**$ 182**	$ 192	**$ 2,023**	$ 1,944
Benefits earned	**74**	67	**3**	2	**77**	69
Interest cost on benefit obligation	**107**	101	**10**	10	**117**	111
Actuarial loss (gain)	**(8)**	34	**(18)**	(1)	**(26)**	33
Benefits paid	**(107)**	(105)	**(13)**	(16)	**(120)**	(121)
Divestiture		(8)		(9)		(17)
Foreign currency exchange rate change			**(27)**	4	**(27)**	4
Benefit obligation at end of year	**$ 1,907**	$ 1,841	**$ 137**	$ 182	**$ 2,044**	$ 2,023
Change in plan assets						
Fair value of plan assets at beginning of year	**$ 1,870**	$ 1,884	**$ 105**	$ 103	**$ 1,975**	$ 1,987
Actual return on plan assets	**(455)**	99	**(18)**	7	**(473)**	106
Company contributions	**450**		**10**	11	**460**	11
Benefits paid	**(107)**	(105)	**(13)**	(16)	**(120)**	(121)
Asset transfer divestiture		(8)		(4)		(12)
Foreign currency exchange rate change			**(24)**	4	**(24)**	4
Fair value of plan assets at end of year	**1,758**	1,870	**60**	105	**1,818**	1,975
Funded status of plan at end of year	**$ (149)**	$ 29	**$ (77)**	$ (77)	**$ (226)**	$ (48)
Amounts recognized in the statement of financial position consist of:						
Accrued over-funded benefit plan assets	**$**	$ 29	**$ 2**	$ 9	**$ 2**	$ 38
Accrued under-funded benefit plan liabilities	**(149)**		**(79)**	(86)	**(228)**	(86)
Total	**$ (149)**	$ 29	**$ (77)**	$ (77)	**$ (226)**	$ (48)
Amounts recognized in accumulated other changes in equity from nonowner sources consist of:						
Prior service benefit	**$ (8)**	$ (13)	**$ (1)**	$ (1)	**$ (9)**	$ (14)
Net actuarial loss	**838**	245	**34**	35	**872**	280
Total	**$ 830**	$ 232	**$ 33**	$ 34	**$ 863**	$ 266

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS (Continued)

(at and for the year ended December 31, in millions)	Postretirement Benefit Plans 2008	2007
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 250**	$ 265
Benefits earned		1
Interest cost on benefit obligation	**15**	16
Actuarial loss (gain)	**24**	(4)
Benefits paid	**(20)**	(19)
Divestiture		(8)
Foreign currency exchange rate change		(1)
Benefit obligation at end of year	**$ 269**	$ 250
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 23**	$ 27
Actual return on plan assets		1
Company contributions	**18**	17
Benefits paid	**(20)**	(19)
Asset transfer divestiture		(3)
Fair value of plan assets at end of year	**21**	23
Funded status of plan at year end	**$ (248)**	$ (227)
Amounts recognized in the statement of financial position consist of:		
Accrued under-funded benefit plan liability	**$ (248)**	$ (227)
Total	**$ (248)**	$ (227)
Amounts recognized in accumulated other changes in equity from nonowner sources consist of:		
Prior service benefit	**$**	$
Net actuarial gain	**(14)**	(42)
Total	**$ (14)**	$ (42)

The total accumulated benefit obligation for the Company's defined benefit pension plans was $2.02 billion and $1.97 billion at December 31, 2008 and 2007, respectively. The Qualified Domestic Plan accounted for $1.89 billion and $1.79 billion of the total accumulated benefit obligation at December 31, 2008 and 2007, respectively, whereas the Nonqualified and Foreign Plans accounted for $0.13 billion and $0.18 billion of the total accumulated benefit obligation at December 31, 2008 and 2007, respectively.

For pension plans with an accumulated benefit obligation in excess of plan assets, the aggregate projected benefit obligation was $1.98 billion and the aggregate accumulated benefit obligation was $1.97 billion at December 31, 2008, and were both $115 million at December 31, 2007. The fair value of plan assets for the above plans was $1.76 billion and $29 million at December 31, 2008 and 2007, respectively.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS (Continued)

The Company has discretion regarding whether to provide additional funding and when to provide such funding to its qualified pension plan. During 2008, the Company voluntarily made contributions totaling $450 million to the qualified pension plan. The Company has not determined whether or not additional funding will be made during 2009. There is no required contribution to the qualified pension plan during 2009.

The pension plan projected benefit obligation divestiture of $17 million and the pension plan asset divestiture of $12 million in 2007 was a result of the sale of the Mexican surety subsidiary, Afianzadora Insurgentes, S.A. de C.V., by the Company in March 2007 and the transfer of certain assets in a 414(k) transfer to the Travelers 401K Plan in the third quarter 2007. The 414(k) asset transfer was made as a result of the Company's review of the structure and investment options available under the pension plan, and after recent changes in federal law governing tax-deferred IRA transfers for non-spouse beneficiaries.

The following table summarizes the components of net periodic benefit cost and other amounts recognized in accumulated other changes in equity from nonowner sources related to the benefit plans for the years ended December 31, 2008, 2007 and 2006.

	Pension Plans			Postretirement Benefit Plans		
(in millions)	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Net Periodic Benefit Cost:						
Service cost	**$ 77**	$ 69	$ 64	**$**	$ 1	$ 2
Interest cost on benefit obligation	**117**	111	108	**15**	16	16
Expected return on plan assets	**(158)**	(150)	(148)	**(1)**	(1)	(1)
Amortization of unrecognized:						
Prior service benefit	**(6)**	(6)	(6)			
Net actuarial loss (gain)	**8**	4	9	**(3)**	(3)	
Net benefit expense	**$ 38**	$ 28	$ 27	**$ 11**	$ 13	$ 17
Other Changes in Benefit Plan Assets and Benefit Obligations Recognized in Accumulated Other Changes in Equity from Nonowner Sources:						
Prior service benefit	**$**	$	$ (20)	**$**	$	$
Net actuarial loss (gain)	**605**	76	208	**25**	(1)	(44)
Amortization of prior service benefit	**6**	6				
Amortization of net actuarial (loss) gain	**(8)**	(4)		**3**	3	
Total other changes recognized in accumulated other changes in equity from nonowner sources	**603**	78	188	**28**	2	(44)
Total other changes recognized in net benefit expense and accumulated other changes in equity from nonowner sources	**$ 641**	$ 106	$ 215	**$ 39**	$ 15	$ (27)

The estimated net actuarial loss (gain) and prior service benefit for the defined benefit pension plans that will be amortized from other changes in equity from nonowner sources into net periodic benefit cost over the next fiscal year are $22 million and $(6) million, respectively. There is no

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS (Continued)

estimated net loss (gain) or prior service cost for the postretirement benefit plans to be amortized from other changes in equity from nonowner sources into net periodic benefit cost over the next fiscal year.

Assumptions and Health Care Cost Trend Rate Sensitivity

(at and for the year ended December 31,)	2008	2007
Assumptions used to determine benefit obligations		
Discount rate	**6.30%**	6.00%
Future compensation increase rate	**4.00%**	4.00%
Assumptions used to determine net periodic benefit cost		
Discount rate	**6.00%**	6.00%
Expected long-term rate of return on pension plans' assets	**8.00%**	8.00%
Expected long-term rate of return on postretirement benefit plans' assets	**5.25%**	5.50%
Assumed health care cost trend rates		
Following year:		
Medical (before age 65)	**9.00%**	7.00%
Medical (age 65 and older)	**9.00%**	9.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate:		
Medical (before age 65)	**2017**	2010
Medical (age 65 and older)	**2017**	2012

The discount rate assumption used to determine the benefit obligation for 2008 was based on a yield-curve approach. Under this approach, a weighted average yield is determined from a hypothetical portfolio of high quality fixed maturity corporate bonds (rated Aa or higher) available at the year-end valuation date for which the timing and amount of cash outflows correspond with the timing and amount of the estimated benefit payouts of the Company's benefit plan. The 2007 discount rate assumption was based on the Moody's Aa Corporate Bond index increased by 25 basis points to reflect the long duration nature of the pension obligation, adjusted to the nearest quarter rate, and then back-tested by comparison to a yield curve approach. The Company changed its discount rate approach as a result of the severe market disruptions that occurred during 2008 that caused the limited population of bonds contained in the Moody's Aa Corporate Bond index to no longer be representative of a portfolio of high-quality debt instruments from which the Company would choose to provide the necessary future cash flows to pay the pension benefits when due.

In choosing the expected long-term rate of return, the Company's Pension Plan Investment Committee considered the historical returns of equity and fixed maturity markets in conjunction with today's economic and financial market conditions.

As an indicator of sensitivity, increasing the assumed health care cost trend rate by 1% would have increased the accumulated postretirement benefit obligation by $32 million at December 31, 2008, and the aggregate of the service and interest cost components of net postretirement benefit expense by $2 million for the year ended December 31, 2008. Decreasing the assumed health care cost trend rate by 1% would have decreased the accumulated postretirement benefit obligation at December 31, 2008

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS (Continued)

by $17 million and the aggregate of the service and interest cost components of net postretirement benefit expense by $1 million for the year ended December 31, 2008.

Plan Assets

The percentage of the fair value of pension plan assets held by asset category is as follows:

(at December 31,)	2008	2007
Equity securities	**49%**	63%
Fixed maturities	**18%**	30%
Cash(1)	**32%**	5%
Other	**1%**	2%
Total	**100%**	100%

(1) Cash assets at December 31, 2008 exceeded the maximum target of 20% due to $450 million of additional funding in the second half of the year.

Pension plan assets are invested for the exclusive benefit of the plan participants and beneficiaries and are intended, over time, to satisfy the benefit obligations under the plan. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial position. The asset mix guidelines have been established and are reviewed quarterly. These guidelines are intended to serve as tools to facilitate the investment of plan assets to maximize long-term total return and the ongoing oversight of the plan's investment performance. The investment portfolio contains a diversified mix of equity and fixed-income investments. Equity investments are diversified across U.S. and non-U.S. stocks. Other assets such as partnerships and real estate are used to enhance long-term returns while improving portfolio diversification. Investment risk is measured and monitored on an ongoing basis through daily and monthly investment portfolio review, annual liability measurements, and periodic asset/liability studies.

Maximum and minimum targets for asset allocations at December 31, 2008 by asset category were as follows:

Asset Category	Plan Assets
Equity securities	25 - 75%
Fixed maturities	15 - 75%
Cash	0 - 20%
Other	0 - 10%

Equity securities include 797,600 shares of the Company's common stock with a market value of $36 million at December 31, 2008.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS (Continued)

The Company's other postretirement benefit plan weighted-average asset allocations at December 31, 2008 and 2007 by asset category were as follows:

Asset Category	2008	2007
Fixed maturities	**48%**	62%
Cash	**50%**	34%
Equity securities	**2%**	4%

Estimated Future Benefit Payments

Benefits expected to be paid, which reflect estimated future employee service, are estimated to be:

Expected payments by period (in millions)	Pension Plans	Postretirement Benefit Plans	Prescription Drug Subsidy
2009	**$ 142**	**$ 20**	**$ 2**
2010	**150**	**21**	**2**
2011	**159**	**22**	**2**
2012	**171**	**23**	**2**
2013	**179**	**23**	**2**
2014 through 2018	**1,022**	**119**	**14**

Savings Plan

The Company has a savings plan, The Travelers 401(k) Savings Plan (the Savings Plan), in which substantially all Company employees are eligible to participate. Under the Savings Plan, the Company matched employee contributions up to 5% of eligible pay, with a maximum annual match of $5,000 which becomes 100% vested after three years of service. The Company match contributed to accounts in 2006 was primarily in the form of the Company's common stock. Beginning with the 2006 match that was contributed in 2007, the Company matching contribution is made in cash and invested according to the employee's current investment elections. The Company matching contribution can be reinvested at any time into any other investment option. The expense related to this plan was $94 million and $78 million for the years ended December 31, 2008 and 2007, respectively.

Included in the Savings Plan are a legacy Savings Plus Plan (SPP) and a Stock Ownership Plan (SOP) in which substantially all employees who were hired by legacy SPC before April 1, 2004 were eligible to participate. In 2004 under the SPP, the Company matched 100% of employees' contributions up to a maximum of 6% of their salary. The match was in the form of preferred shares, to the extent available in the SOP, or in the Company's common shares. Also allocated to participants were preferred shares equal to the value of dividends on previously allocated shares. Each share of preferred stock pays a dividend of $11.72 annually and is currently convertible into eight shares of the Company's common stock. The SOP has no preferred shares available for future allocations.

All common shares and the common stock equivalent of all preferred shares held by the Savings Plan are considered outstanding for diluted EPS computations and dividends paid on all shares are charged to retained earnings.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. LEASES

Rent expense was $243 million, $237 million and $238 million in 2008, 2007 and 2006, respectively.

Future minimum annual rental payments under noncancellable operating leases are $180 million, $161 million, $128 million, $99 million, $74 million and $160 million for 2009, 2010, 2011, 2012, 2013 and 2014 and thereafter, respectively. Future sublease rental income aggregating approximately $16 million will partially offset these commitments.

15. 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 II Item 7 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."

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

Table of Contents

15. CONTINGENCIES, COMMITMENTS AND GUARANTEES (Continued)

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.

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 seeking review of the Second Circuit's decision, and on December 12, 2008, the Petitions were granted. Unless the Supreme Court 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.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. CONTINGENCIES, COMMITMENTS AND GUARANTEES (Continued)

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.

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 industry-wide investigations that commenced in October 2004, the Company and its affiliates received subpoenas and written requests for information from a number

Table of Contents

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 was commenced after the announcement of litigation brought in October 2004 by the New York Attorney General's office against a major broker. The Company completed its review. With respect to the identified finite products purchased and sold, the Company concluded that no adjustment to previously issued financial statements was required. Any authority with open inquiries or investigations could ask that additional work be performed or reach conclusions different from the Company's.

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. CONTINGENCIES, COMMITMENTS AND GUARANTEES (Continued)

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 "Item 1B Unresolved Staff Comments." 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 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 $1.56 billion and $1.60 billion at December 31, 2008 and 2007, respectively.

SPC's Sale of Minet In May 1997, SPC completed the sale of its insurance brokerage operation, Minet, to Aon Corporation. SPC agreed to indemnify Aon against any future claims for professional liability and other specified events that occurred or existed prior to the sale. The Company assumed obligations related to this indemnification upon consummation of the merger. The Company monitors its exposure under these claims on a regular basis. The Company believes reserves for reported claims are adequate, but it does not have information on unreported claims to estimate a range of additional liability.

From 1997 to 2004, SPC purchased insurance to cover a portion of its exposure to such claims. Under the sale agreement, SPC also committed to acquire a minimum level of reinsurance brokerage services from Aon through 2012. That commitment requires the Company to make a contractual payment to Aon to the extent such minimum level of service is not acquired. The maximum annual amount payable to Aon for such services and any such contractual payment related to that commitment is $20 million.

Guarantees

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

In the ordinary course of selling business entities to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the business entities being sold, covenants and obligations of the Company and/or its subsidiaries

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. CONTINGENCIES, COMMITMENTS AND GUARANTEES (Continued)

following the closing, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development, imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, or certain named litigation. Such indemnification provisions generally survive for periods ranging from 12 months following the applicable closing date to the expiration of the relevant statutes of limitations, or in some cases agreed upon term limitations. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. At December 31, 2008, the maximum amount of the Company's contingent obligation for those indemnifications that are quantifiable related to sales of business entities was $2.10 billion. The carrying value of these obligations at December 31, 2008 was $58 million.

16. NONCASH INVESTING AND FINANCING ACTIVITIES

There were no significant noncash financing or investing activities during the years ended December 31, 2008, 2007 and 2006.

17. 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 December 31, 2008.

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 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.

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES (Continued)

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the year ended December 31, 2008

(in millions)	TPC	Other Subsidiaries	Travelers(1)	Eliminations	Consolidated
Revenues					
Premiums	$ 14,500	$ 7,079	$	$	$ 21,579
Net investment income	1,774	966	52		2,792
Fee income	389	1			390
Net realized investment gains (losses)	(393)	(49)	27		(415)
Other revenues	90	41	5	(5)	131
Total revenues	16,360	8,038	84	(5)	24,477
Claims and expenses					
Claims and claim adjustment expenses	8,543	4,450			12,993
Amortization of deferred acquisition costs	2,638	1,242			3,880
General and administrative expenses	2,397	1,089	32		3,518
Interest expense	74	4	297	(5)	370
Total claims and expenses	13,652	6,785	329	(5)	20,761
Income (loss) before income taxes	2,708	1,253	(245)		3,716
Income tax expense	610	169	13		792
Equity in net income of subsidiaries			3,182	(3,182)	
Net income	$ 2,098	$ 1,084	$ 2,924	$ (3,182)	$ 2,924

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES (Continued)

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the year ended December 31, 2007

(in millions)	TPC	Other Subsidiaries	Travelers(1)	Eliminations	Consolidated
Revenues					
Premiums	$ 14,507	$ 6,963	$	$	$ 21,470
Net investment income	2,553	1,130	78		3,761
Fee income	506	2			508
Net realized investment gains	67	70	17		154
Other revenues	42	81	12	(11)	124
Total revenues	17,675	8,246	107	(11)	26,017
Claims and expenses					
Claims and claim adjustment expenses	8,375	4,022			12,397
Amortization of deferred acquisition costs	2,437	1,269			3,706
General and administrative expenses	2,263	1,039	50		3,352
Interest expense	88	9	260	(11)	346
Total claims and expenses	13,163	6,339	310	(11)	19,801
Income (loss) before income taxes	4,512	1,907	(203)		6,216
Income tax expense (benefit)	1,207	455	(47)		1,615
Equity in net income of subsidiaries			4,757	(4,757)	
Net income	$ 3,305	$ 1,452	$ 4,601	$ (4,757)	$ 4,601

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES (Continued)

CONSOLIDATING STATEMENT OF INCOME (Unaudited)
For the year ended December 31, 2006

(in millions)	TPC	Other Subsidiaries	Travelers(1)	Eliminations	Consolidated
Revenues					
Premiums	$13,861	$ 6,899	$	$	$ 20,760
Net investment income	2,357	1,059	103	(2)	3,517
Fee income	589	2			591
Net realized investment gains (losses)	(11)	46	(24)		11
Other revenues	104	64	54	(11)	211
Total revenues	16,900	8,070	133	(13)	25,090
Claims and expenses					
Claims and claim adjustment expenses	8,116	4,128			12,244
Amortization of deferred acquisition costs	2,228	1,111			3,339
General and administrative expenses	2,309	1,120	29		3,458
Interest expense	117	8	212	(13)	324
Total claims and expenses	12,770	6,367	241	(13)	19,365
Income (loss) before income taxes	4,130	1,703	(108)		5,725
Income tax expense (benefit)	1,118	436	(37)		1,517
Equity in net income of subsidiaries			4,279	(4,279)	
Net income	$ 3,012	$ 1,267	$ 4,208	$ (4,279)	$ 4,208

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES (Continued)

CONSOLIDATING BALANCE SHEET (Unaudited)
At December 31, 2008

(in millions)	TPC	Other Subsidiaries	Travelers(1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale at fair value (including $8 subject to securities lending) (amortized cost $61,569)	$41,329	$ 19,635	$ 311	$	$ 61,275
Equity securities, at fair value (cost $461)	207	128	44		379
Real estate	2	825			827
Short-term securities	2,213	1,169	1,840		5,222
Other investments	1,987	897	151		3,035
Total investments	45,738	22,654	2,346		70,738
Cash	183	167			350
Investment income accrued	545	274	4		823
Premiums receivable	4,037	1,917			5,954
Reinsurance recoverables	9,417	4,815			14,232
Ceded unearned premiums	806	135			941
Deferred acquisition costs	1,506	268			1,774
Deferred tax asset	1,319	549	97		1,965
Contractholder receivables	4,726	1,624			6,350
Goodwill	2,412	954			3,366
Other intangible assets	386	302			688
Investment in subsidiaries			28,181	(28,181)	
Other assets	1,873	664	33		2,570
Total assets	$72,948	$ 34,323	$ 30,661	$ (28,181)	$ 109,751
Liabilities					
Claims and claim adjustment expense reserves	$35,810	$ 18,913	$	$	$ 54,723
Unearned premium reserves	7,609	3,348			10,957
Contractholder payables	4,726	1,624			6,350
Payables for reinsurance premiums	283	245			528
Debt	1,193	9	4,979		6,181
Other liabilities	4,033	1,297	363		5,693
Total liabilities	53,654	25,436	5,342		84,432
Shareholders' equity					
Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding)			89		89
Common stock (1,750.0 shares authorized; 585.1 shares issued and outstanding)		392	19,242	(392)	19,242
Additional paid-in capital	11,054	7,141		(18,195)	
Retained earnings	8,328	1,628	13,314	(9,956)	13,314

Accumulated other changes in equity from nonowner sources	(88)	(274)	(900)	362	(900)
Treasury stock, at cost (128.8 shares)			(6,426)		(6,426)
Total shareholders' equity	19,294	8,887	25,319	(28,181)	25,319
Total liabilities and shareholders' equity	$72,948	$ 34,323	$ 30,661	$ (28,181)	$ 109,751

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

243

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. 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
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.

244

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES (Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the twelve months ended December 31, 2008

(in millions)	TPC	Other Subsidiaries	Travelers(1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 2,098	$ 1,084	$ 2,924	$ (3,182)	$ 2,924
Net adjustments to reconcile net income to net cash provided by operating activities	949	(501)	149	(383)	214
Net cash provided by operating activities	3,047	583	3,073	(3,565)	3,138
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	2,511	2,304	54		4,869
Proceeds from sales of investments:					
Fixed maturities	3,529	3,389	14		6,932
Equity securities	23	30			53
Real estate		25			25
Other investments	433	222			655
Purchases of investments:					
Fixed maturities	(6,316)	(4,811)			(11,127)
Equity securities	(3)	(91)	(1)		(95)
Real estate		(38)			(38)
Other investments	(392)	(275)			(667)
Net sales (purchases) of short-term securities	507	(247)	(666)		(406)
Securities transactions in course of settlement	(325)	4	3		(318)
Other	(373)	328			(45)
Net cash provided by (used in) investing activities	(406)	840	(596)		(162)
Cash flows from financing activities					
Issuance of debt			496		496
Payment of debt	(403)		(149)		(552)
Dividends paid to shareholders			(715)		(715)
Issuance of common stock employee share options			89		89
Treasury shares acquired share repurchase authorization			(2,167)		(2,167)
Treasury shares acquired net employee share-based compensation			(29)		(29)
Excess tax benefits from share-based payment arrangements			10		10
Dividends paid to parent company	(2,257)	(1,104)		3,361	
Capital contributions and loans between subsidiaries		(178)	(26)	204	

Net cash used in financing activities	(2,660)	(1,282)	(2,491)	3,565	(2,868)
Effect of exchange rate changes on cash		(29)			(29)
Net increase (decrease) in cash	(19)	112	(14)		79
Cash at beginning of period	202	55	14		271
Cash at end of period	$ 183	$ 167	$	$	$ 350
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 737	$ 333	$ (229)	$	$ 841
Interest paid	$ 80	$	$ 295	$	$ 375

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES (Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the twelve months ended December 31, 2007

(in millions)	TPC	Other Subsidiaries	Travelers(1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 3,305	$ 1,452	$ 4,601	$ (4,757)	$ 4,601
Net adjustments to reconcile net income to net cash provided by operating activities	(81)	732	(2,304)	2,338	685
Net cash provided by operating activities	3,224	2,184	2,297	(2,419)	5,286
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	2,972	2,312	21		5,305
Proceeds from sales of investments:					
Fixed maturities	3,730	3,584	9		7,323
Equity securities	67	39			106
Real estate	9	2			11
Other investments	820	640			1,460
Purchases of investments:					
Fixed maturities	(8,077)	(6,642)			(14,719)
Equity securities	(62)	(71)	(2)		(135)
Real estate	(1)	(73)			(74)
Other investments	(543)	(197)			(740)
Net purchases of short-term securities	(72)	(292)	(198)		(562)
Securities transactions in course of settlement	(96)	(24)	(3)		(123)
Other	(427)	49			(378)
Net cash used in investing activities	(1,680)	(673)	(173)		(2,526)
Cash flows from financing activities					
Issuance of debt			2,461		2,461
Payment of debt	(860)		(1,096)		(1,956)
Dividends paid to shareholders			(742)		(742)
Issuance of common stock employee share options			218		218
Treasury shares acquired share repurchase authorization			(2,920)		(2,920)
Treasury shares acquired net employee share-based compensation			(39)		(39)
Excess tax benefits from share-based payment arrangements			25		25
Dividends paid to parent company	(1,287)	(1,440)		2,727	
Capital contributions and loans between subsidiaries	480	(151)	(21)	(308)	
Net cash used in financing activities	(1,667)	(1,591)	(2,114)	2,419	(2,953)

Effect of exchange rate changes on cash		5			5
Net increase (decrease) in cash	(123)	(75)	10		(188)
Cash at beginning of period	325	130	4		459
Cash at end of period	$ 202	$ 55	$ 14	$	$ 271
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 1,074	$ 438	$ (166)	$	$ 1,346
Interest paid	$ 109	$	$ 248	$	$ 357

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES (Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the twelve months ended December 31, 2006

(in millions)	TPC	Other Subsidiaries	Travelers(1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 3,012	$ 1,267	$ 4,208	$ (4,279)	$ 4,208
Net adjustments to reconcile net income to net cash provided by operating activities	(153)	525	(2,930)	3,124	566
Net cash provided by operating activities	2,859	1,792	1,278	(1,155)	4,774
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	3,410	2,388	12		5,810
Proceeds from sales of investments:					
Fixed maturities	2,192	2,166	43		4,401
Equity securities	195	90			285
Other investments	765	346			1,111
Purchases of investments:					
Fixed maturities	(7,852)	(5,960)	(33)		(13,845)
Equity securities	(11)	(72)			(83)
Real estate	(2)	(73)			(75)
Other investments	(567)	(138)			(705)
Net (purchases) sales of short-term securities	(481)	264	132		(85)
Securities transactions in course of settlement	539	(92)			447
Other	(327)	2			(325)
Net cash provided by (used in) investing activities	(2,139)	(1,079)	154		(3,064)
Cash flows from financing activities					
Issuance of debt			786		786
Payment of debt	(154)		(652)		(806)
Dividends paid to shareholders			(702)		(702)
Issuance of common stock employee share options			216		216
Treasury shares acquired share repurchase authorization			(1,103)		(1,103)
Treasury shares acquired net employee share-based compensation			(17)		(17)
Excess tax benefits from share-based payment arrangements			16		16
Dividends paid to parent company	(375)	(780)		1,155	
Capital contributions and loans between subsidiaries		(8)	8		
Other	(2)		19		17

Net cash used in financing activities		(531)		(788)		(1,429)		1,155		(1,593)
Effect of exchange rate changes on cash				5						5
Net increase (decrease) in cash		189		(70)		3				122
Cash at beginning of period		136		200		1				337
Cash at end of period	$	325	$	130	$	4	$		$	459
Supplemental disclosure of cash flow information										
Income taxes paid (received)	$	869	$	156	$	(164)	$		$	861
Interest paid	$	138	$		$	220	$		$	358

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

Table of Contents

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

2008 (in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total revenues	**$ 6,232**	**$ 6,295**	**$ 6,145**	**$ 5,805**	**$ 24,477**
Total expenses	**4,918**	**5,008**	**5,957**	**4,878**	**20,761**
Income before income taxes	**1,314**	**1,287**	**188**	**927**	**3,716**
Income tax expense (benefit)	**347**	**345**	**(26)**	**126**	**792**
Net income	**$ 967**	**$ 942**	**$ 214**	**$ 801**	**$ 2,924**
Net income per share:(1)					
Basic	**$ 1.57**	**$ 1.57**	**$ 0.36**	**$ 1.37**	**$ 4.90**
Diluted	**1.54**	**1.54**	**0.36**	**1.35**	**4.82**

2007 (in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total revenues	$ 6,427	$ 6,573	$ 6,526	$ 6,491	$ 26,017
Total expenses	4,967	4,932	4,852	5,050	19,801
Income before income taxes	1,460	1,641	1,674	1,441	6,216
Income tax expense	374	387	476	378	1,615
Net income	$ 1,086	$ 1,254	$ 1,198	$ 1,063	$ 4,601
Net income per share:(1)					
Basic	$ 1.62	$ 1.90	$ 1.85	$ 1.67	$ 7.04
Diluted	1.56	1.86	1.81	1.64	6.86

(1) Due to the averaging of shares, quarterly earnings per share may not add to the total for the full year.

Table of Contents

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

Item 9A. 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 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 December 31, 2008. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2008, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

In addition, except as described above, 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 December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of the consolidated financial statements of the Company in accordance with U.S. generally accepted accounting principles. The Company's accounting policies and internal controls over financial reporting, established and maintained by management, are under the general oversight of the Company's Audit Committee.

The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Management has assessed the Company's internal control over financial reporting as of December 31, 2008. The standard measures adopted by management in making its evaluation are the measures in the Internal-Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

Based upon its assessment, management has concluded that the Company's internal control over financial reporting was effective at December 31, 2008, and that there were no material weaknesses in the Company's internal control over financial reporting as of that date.

KPMG LLP, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Form 10-K, has issued its report on the effectiveness of the Company's internal control over financial reporting which follows this report.

Table of Contents

Report of Independent Registered Public Accounting Firm

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

We have audited The Travelers Companies, Inc. and subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Travelers Companies, Inc. and subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Travelers Companies, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Travelers Companies, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 19, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP
Minneapolis, Minnesota
February 19, 2009

Table of Contents

Item 9B. OTHER INFORMATION

On February 18, 2009, the Company amended its Bylaws to provide that its principal executive office is at 485 Lexington Avenue, New York, NY 10017 rather than 385 Washington Street, Saint Paul, MN 55102.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers of the Company

Set forth below is information concerning the Company's executive officers as of February 19, 2009.

Name	Age	Office
Jay S. Fishman	56	Chairman of the Board of Directors and Chief Executive Officer
Jay S. Benet	56	Vice Chairman and Chief Financial Officer
Charles J. Clarke	73	Vice Chairman
William H. Heyman	60	Vice Chairman and Chief Investment Officer
Alan D. Schnitzer	43	Vice Chairman, Chief Legal Officer and Executive Vice President Financial, Professional and International Insurance
Brian W. MacLean	55	President and Chief Operating Officer
Andy F. Bessette	55	Executive Vice President and Chief Administrative Officer
Kenneth F. Spence, III	53	Executive Vice President and General Counsel
Doreen Spadorcia	51	Executive Vice President Claim Services
Joseph P. Lacher, Jr.	39	Executive Vice President Personal Insurance and Select Accounts
John J. Albano	59	Executive Vice President Business Insurance
Samuel G. Liss	52	Executive Vice President Strategic Development
William A. Bloom	45	Executive Vice President Insurance Operations and Systems

Jay S. Fishman, 56, has been Chairman since September 2005 and Chief Executive Officer of the Company since joining SPC in October 2001. He held the additional title of President from October 2001 until June 2008 and Chairman of SPC from October 2001 until the Merger. Mr. Fishman held several key executive posts at Citigroup Inc. from 1998 to October 2001, including Chairman, Chief Executive Officer and President of the Travelers insurance businesses. Starting in 1989, Mr. Fishman worked as an executive for Primerica, which became part of Citigroup.

Jay S. Benet, 56, has been Vice Chairman and Chief Financial Officer since August 2005, and before that, he was Executive Vice President and Chief Financial Officer of the Company since the Merger, and from February 2002 until the Merger, he held those same offices at TPC. From March 2001 until January 2002, Mr. Benet was the worldwide head of financial planning, analysis and reporting at Citigroup and Chief Financial Officer for Citigroup's Global Consumer Europe, Middle East and Africa unit between April 2000 and March 2001. Before that, Mr. Benet spent 10 years in various executive positions with Travelers Life & Annuity, including Chief Financial Officer of Travelers Life & Annuity and Executive Vice President, Group Annuity from December 1998 to April 2000, and Senior Vice President Group Annuity from December 1996 to December 1998. Prior to joining Travelers Life & Annuity, Mr. Benet was a partner of Coopers & Lybrand (now PricewaterhouseCoopers).

Charles J. "Chuck" Clarke, 73, has been Vice Chairman of the Company since the Merger at which time he was serving in the roles of President, Vice Chairman and Director of TPC. Mr. Clarke joined Travelers in 1958 as an assistant underwriter. During his tenure at Travelers, Mr. Clarke progressed through positions of increasing responsibility. Of note, he was appointed Senior Vice

President for the National Accounts Group's property-casualty business in 1985 and subsequently assumed the responsibility of Chairman of Commercial Lines in 1990.

William H. Heyman, 60, has been Chief Investment Officer of the Company since the Merger and Vice Chairman since May 2005. Prior to May 2005, he was Executive Vice President and Chief Investment Officer of the Company since the Merger. Prior to the Merger, he held those same offices with SPC since he joined SPC in May 2002. Mr. Heyman held various executive positions with Citigroup from 1995 through 2002, including the position of chairman of Citigroup Investments from 2000 to 2002. Prior to joining Citigroup in 1995, Mr. Heyman was, successively: a managing director of Salomon Brothers; Director of the Division of Market Regulation of the U.S. Securities and Exchange Commission; and a managing director of Smith Barney.

Alan D. Schnitzer, 43, has been Vice Chairman and Chief Legal Officer since joining the Company in April 2007 and Executive Vice President Financial, Professional and International Insurance since May 2008. Prior to that time, he was a partner at the law firm of Simpson Thacher & Bartlett LLP, where he advised corporate clients on a variety of transactions and general corporate law matters. Mr. Schnitzer joined Simpson Thacher in 1991.

Brian W. MacLean, 55, has been Chief Operating Officer since May 2005 and President since June 2008. Prior to that, he had been Executive Vice President and Chief Operating Officer since May 2005. Prior to that, he had been Co-Chief Operating Officer of the Company since February 1, 2005. Before that, he was Executive Vice President, Claim Services for the Company, and prior thereto, for TPC. Prior to that, Mr. MacLean served as President of Select Accounts for TIGHI from July 1999 to January 2002. He also served as Chief Financial Officer of Claim Services from March 1993 to June 1996. From June 1996 to July 1999, Mr. MacLean was Chief Financial Officer for Commercial Lines. He joined TIGHI in 1988.

Andy F. Bessette, 55, has been Executive Vice President and Chief Administrative Officer of the Company since the Merger, and prior to that, he held the same offices with SPC since joining SPC in January 2002. Before that, he was Vice President of Corporate Real Estate and Services for TPC. From 1980 to December 2001, Mr. Bessette held a number of management positions at TIGHI.

Kenneth F. Spence, III, 53, has been Executive Vice President and General Counsel of the Company since January 2005. From August 2004 to January 2005, he was Senior Vice President and General Counsel. Prior to that, Mr. Spence served in several leadership positions in the Company's Legal Services group, and from April 1998 until the Merger, in SPC's Legal Services Group. Mr. Spence joined SPC in April 1998, upon SPC's merger with USF&G Corporation, where he had served as legal counsel.

Doreen Spadorcia, 51, has been Executive Vice President Claim Services, since March 2, 2005. Prior to that, she was President and Chief Executive Officer of Bond operations for the Company since the Merger and, before that, for TPC since June 2002. From 1994 to May 2002, she managed the TPC Bond claim operation and served as General Counsel of that business unit. She joined TIGHI in 1986 as a claim attorney.

Joseph P. Lacher, Jr., 39, has been Executive Vice President Personal Insurance and Select Accounts for the Company since January 2005, and prior to that, he had been Senior Vice President of the Company in charge of those operations. Prior to the Merger, he was Executive Vice President Personal for TPC. Before that, he was Senior Vice President of Product & Actuarial for TPC's Personal insurance operations since April 2001. Mr. Lacher was Senior Vice President of Personal Strategic Distribution for TIGHI from April 1999 to April 2001, and from April 1996 to April 1999, he was Chief Financial Officer of Select Accounts. Mr. Lacher joined TIGHI in 1991.

John J. Albano, 59, has been Executive Vice President of the Company since November 2005, and he is currently Executive Vice President Business Insurance. In 1998, he assumed the position of

Table of Contents

Chief Underwriting Officer and Chief Operating Officer for National Accounts and was promoted to President and CEO for National Accounts in 2000 and Commercial Accounts in 2005. Prior to that time, he served as Regional Vice President of the Northeast Region from 1987 to 1997. He joined Travelers in 1971, working in Commercial Lines Underwriting and Marketing on Long Island.

Samuel G. Liss, 52, has been Executive Vice President Strategic Development since September 2006. From September 2006 to July 2008, he held the additional title of Executive Vice President Financial, Professional and International Insurance. Mr. Liss was Executive Vice President of Business Development when he joined the Company in February 2003. In 2002, he advised SPC in connection with its formation of Platinum Underwriters Holdings, Ltd, a NYSE-listed Bermuda reinsurance company which succeeded SPC's former assumed reinsurance operation. Mr. Liss served as Managing Director in the Financial Institutions Group and Equity Research at Credit Suisse First Boston from 1994 to 2001.

William A. Bloom, 45, has been Executive Vice President Insurance Operations and Systems since May 2007. Prior to that, he was Senior Vice President and Chief Information Officer for the Company since the Merger. In 2006, he was given the additional responsibility for Insurance Operations, which includes the policyholder and agency service centers, underwriting support and policy processing, agency operations and billing. Prior to joining Travelers as its Chief Information Officer in 2003, Mr. Bloom was a partner in the Financial Services Practice at Accenture. He also served previously as a Vice President at Hartford Life, responsible for business technology services.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics (Code of Ethics) that applies to all employees, including executive officers, and to directors. The Code of Ethics is available on the Corporate Governance page of the Company's internet website at *www.travelers.com* and is available in print to any shareholder who requests it. If the Company ever were to amend or waive any provision of its Code of Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or any person performing similar functions, the Company intends to satisfy its disclosure obligations with respect to any such waiver or amendment by posting such information on its internet website set forth above rather than by filing a Form 8-K.

The following sections of the Company's Proxy Statement relating to its Annual Meeting of Shareholders to be held May 5, 2009 are incorporated herein by reference: "Item 1 Election of Directors Nominees for Election as Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Board of Directors Information" and "Shareholder Proposals for 2010 Annual Meeting."

Item 11. EXECUTIVE COMPENSATION

The following sections of the Company's Proxy Statement relating to its Annual Meeting of Shareholders to be held May 5, 2009 are incorporated herein by reference: "Executive Compensation," "Tabular Executive Compensation Disclosure" and "Non-Employee Director Compensation."

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The "Share Ownership Information" section of the Company's Proxy Statement relating to its Annual Meeting of Shareholders to be held May 5, 2009 is incorporated herein by reference.

Table of Contents

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of December 31, 2008 regarding the Company's equity compensation plans. The only plan pursuant to which the company may currently make additional equity grants is The Travelers Companies, Inc. Amended and Restated 2004 Stock Incentive Plan (the 2004 Incentive Plan) which replaced prior share-based incentive plans (legacy plans). In connection with the adoption of the 2004 Incentive Plan, legacy share-based compensation plans were terminated. Outstanding grants were not affected by the termination of these legacy plans, including the reload method of option exercise related to prior option grants under the legacy plans, and these option holders may continue to use the reload exercise method.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	35,242,577	$	41.62 per share	42,491,794(3)
Equity compensation plans not approved by security holders(2)	196,004	$	41.66 per share	
Total	35,438,581	$	41.62 per share	42,491,794(3)

(1) In addition to the 2004 Incentive Plan, these numbers also include the St. Paul Global Stock Option Plan and certain plans for St. Paul's United Kingdom and Ireland employees. Shares of deferred stock or phantom stock units that may be settled in shares of common stock are included in column (a) of the table, but are not included in column (b) for purposes of the weighted average exercise price of stock options.

(2) Represents options granted under The St. Paul Holdings 1996 Stock Option Plan which was established to grant options to certain eligible employees of TRV's United Kingdom operations. The options granted under the plan were priced at the market price of the Company's common stock on the date of grant and were eligible for exercise at any time from three to ten years after the date of grant. No additional options may be granted under the plan.

(3) These shares are available for grant as of December 31, 2008 under the 2004 Incentive Plan pursuant to which the Compensation Committee of the board of directors may make various stock-based awards including nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock, deferred stock units, performance awards and other stock-based or stock-denominated awards with respect to the Company's common stock. The 2004 Incentive Plan had 35 million shares initially authorized for issuance. In addition to these 35 million shares, the following shares will become available for grant under the 2004 Incentive Plan and, to the extent such shares became available as of December 31, 2008, they are included in the table as available for grant: (i) shares covered by outstanding awards under the 2004 Incentive Plan and legacy plans that are forfeited or otherwise terminated or settled in cash or other property rather than settled through the issuance of shares; (ii) shares that are used to pay the exercise price of stock options and shares used to pay withholding taxes on equity awards generally; and (iii) shares purchased by the Company on the open market using cash from option exercises, as limited by the 2004 Incentive Plan.

The provisions of the preceding paragraph that result in shares becoming available for future grants under the 2004 Incentive Plan also apply to any awards granted under legacy share-based

Table of Contents

incentive compensation plans that were outstanding on the effective date of the 2004 Incentive Plan except for certain shares delivered to or retained in legacy plans in connection with the withholding of taxes applicable to the exercise of outstanding options that have reload features.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The "Governance of Your Company Significant Governance Practices" section of the Company's Proxy Statement relating to its Annual Meeting of Shareholders to be held May 5, 2009 is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The "Item 2 Ratification of Independent Registered Public Accounting Firm Audit and Non-Audit Fees" section of the Company's Proxy Statement relating to its Annual Meeting of Shareholders to be held May 5, 2009 is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as a part of the report:

(1) Financial Statements. See Index to Consolidated Financial Statements on page 154 hereof.

(2) Financial Statement Schedules. See Index to Consolidated Financial Statements and Schedules on page 259 hereof.

(3) Exhibits:

See Exhibit Index on pages 267-270 hereof.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 19, 2009 By /s/ MATTHEW S. FURMAN

Matthew S. Furman
Senior Vice President
(Authorized Signatory)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of The Travelers Companies, Inc. and in the capacities and on the dates indicated.

			Date
By	/s/ JAY S. FISHMAN **Jay S. Fishman**	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	February 19, 2009
By	/s/ JAY S. BENET **Jay S. Benet**	Vice Chairman and Chief Financial Officer (Principal Financial Officer)	February 19, 2009
By	/s/ DOUGLAS K. RUSSELL **Douglas K. Russell**	Senior Vice President, Corporate Controller and Treasurer (Principal Accounting Officer)	February 19, 2009
By	* **Alan L. Beller**	Director	February 19, 2009
By	* **John H. Dasburg**	Director	February 19, 2009
By	* **Janet M. Dolan**	Director	February 19, 2009
By	* **Kenneth M. Duberstein**	Director	February 19, 2009
By	* **Lawrence G. Graev**	Director	February 19, 2009
By	* **Patricia L. Higgins**	Director	February 19, 2009

Table of Contents

			Date
By	* **Thomas R. Hodgson**	Director	February 19, 2009
By	* **Cleve L. Killingsworth, Jr.**	Director	February 19, 2009
By	* **Robert I. Lipp**	Director	February 19, 2009
By	* **Blythe J. McGarvie**	Director	February 19, 2009
By	* **Glen D. Nelson, M.D.**	Director	February 19, 2009
By	* **Laurie J. Thomsen**	Director	February 19, 2009
*By	/s/ MATTHEW S. FURMAN **Matthew S. Furman, Attorney-in-fact**		February 19, 2009

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

Table of Contents

Report of Independent Registered Public Accounting Firm

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

Under date of February 19, 2009, we reported on the consolidated balance sheet of The Travelers Companies, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008, which are included in this Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedules as listed in the accompanying index. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

KPMG LLP
Minneapolis, Minnesota
February 19, 2009

Table of Contents

SCHEDULE II

THE TRAVELERS COMPANIES, INC.
(Parent Company Only)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(in millions)

CONDENSED STATEMENT OF INCOME

For the year ended December 31,	2008	2007	2006
Revenues			
Net investment income	**$ 52**	$ 78	$ 103
Net realized investment gains (losses)	**27**	17	(24)
Other revenues	**5**	12	54
Total revenues	**84**	107	133
Expenses			
Interest	**297**	260	212
Other	**32**	50	29
Total expenses	**329**	310	241
Loss before income taxes and equity in net income of subsidiaries	**(245)**	(203)	(108)
Income tax expense (benefit)	**13**	(47)	(37)
Loss before equity in net income of subsidiaries	**(258)**	(156)	(71)
Equity in net income of subsidiaries	**3,182**	4,757	4,279
Net income	**$ 2,924**	$ 4,601	$ 4,208

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

Table of Contents

SCHEDULE II

THE TRAVELERS COMPANIES, INC.
(Parent Company Only)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(in millions)

CONDENSED BALANCE SHEET

At December 31,	2008	2007
Assets		
Fixed maturities	**$ 311**	$ 393
Equity securities	**44**	72
Short-term securities	**1,840**	1,175
Investment in subsidiaries	**28,181**	29,522
Other assets	**285**	433
Total assets	**$ 30,661**	$ 31,595
Liabilities		
Debt	**$ 4,979**	$ 4,664
Other liabilities	**363**	315
Total liabilities	**5,342**	4,979
Shareholders' equity		
Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding at both dates)	**89**	112
Common stock (1,750.0 shares authorized, 585.1 and 627.8 shares issued and outstanding)	**19,242**	18,990
Retained earnings	**13,314**	11,110
Accumulated other changes in equity from nonowner sources	**(900)**	670
Treasury stock, at cost (128.8 and 82.9 shares)	**(6,426)**	(4,266)
Total shareholders' equity	**25,319**	26,616
Total liabilities and shareholders' equity	**$ 30,661**	$ 31,595

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

Table of Contents

SCHEDULE II

THE TRAVELERS COMPANIES, INC.
(Parent Company Only)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(in millions)

CONDENSED STATEMENT OF CASH FLOWS

For the year ended December 31,	2008	2007	2006
Cash flows from operating activities			
Net income	**$ 2,924**	$ 4,601	$ 4,208
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in net income of subsidiaries	**(3,182)**	(4,757)	(4,279)
Dividends received from consolidated subsidiaries	**3,361**	2,727	1,155
Capital repaid from (contributed to) subsidiaries	**40**	(320)	8
Deferred federal income tax expense	**169**	2	158
Change in income taxes payable	**63**	25	(80)
Gain on redemption of subordinated debentures		(7)	(42)
Other	**(302)**	26	158
Net cash provided by operating activities	**3,073**	2,297	1,286
Cash flows from investing activities			
Net sales (purchases) of short-term securities	**(666)**	(198)	132
Other investments, net	**70**	25	22
Net cash provided by (used in) investing activities	**(596)**	(173)	154
Cash flows from financing activities			
Issuance of debt	**496**	2,461	786
Payment of debt	**(149)**	(1,096)	(652)
Dividends paid to shareholders	**(715)**	(742)	(702)
Treasury stock acquired share repurchase authorization	**(2,167)**	(2,920)	(1,103)
Treasury stock acquired net employee share-based compensation	**(29)**	(39)	(17)
Issuance of common stock-employee share options	**89**	218	216
Other	**(16)**	4	35
Net cash used in financing activities	**(2,491)**	(2,114)	(1,437)
Net increase (decrease) in cash	**(14)**	10	3
Cash at beginning of period	**14**	4	1
Cash at end of period	**$**	$ 14	$ 4
Supplemental disclosure of cash flow information			
Cash received during the year for taxes	**$ 229**	$ 166	$ 164
Cash paid during the year for interest	**$ 295**	$ 248	$ 220

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

Table of Contents

SCHEDULE III

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

Supplementary Insurance Information
2006-2008
(in millions)

Segment	Deferred Policy Acquisition Costs	Claims and Claim Adjustment Expense Reserves	Unearned Premiums	Premium Revenue	Net Investment Income(a)	Claims and Claim Adjustment Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses(b)	Premiums Written
2008									
Business Insurance	**$ 813**	**$ 43,982**	**$ 5,552**	**$ 11,180**	**$ 1,917**	**$ 6,608**	**$ 1,818**	**$ 2,080**	**$ 11,220**
Financial, Professional & International Insurance	**366**	**6,741**	**2,250**	**3,429**	**454**	**1,769**	**652**	**583**	**3,468**
Personal Insurance	**595**	**3,923**	**3,155**	**6,970**	**421**	**4,616**	**1,410**	**829**	**6,995**
Total Reportable Segments	**1,774**	**54,646**	**10,957**	**21,579**	**2,792**	**12,993**	**3,880**	**3,492**	**21,683**
Other		**77**						**396**	
Consolidated	**$ 1,774**	**$ 54,723**	**$ 10,957**	**$ 21,579**	**$ 2,792**	**$ 12,993**	**$ 3,880**	**$ 3,888**	**$ 21,683**
2007									
Business Insurance	$ 821	$ 47,050	$ 5,695	$ 11,283	$ 2,708	$ 6,673	$ 1,742	$ 2,029	$ 11,318
Financial, Professional & International Insurance	390	6,822	2,398	3,384	494	1,737	654	590	3,465
Personal Insurance	598	3,747	3,134	6,803	559	3,987	1,310	699	6,835
Total Reportable Segments	1,809	57,619	11,227	21,470	3,761	12,397	3,706	3,318	21,618
Other		81						380	
Consolidated	$ 1,809	$ 57,700	$ 11,227	$ 21,470	$ 3,761	$ 12,397	$ 3,706	$ 3,698	$ 21,618
2006									
Business Insurance	$ 723	$ 49,179	$ 5,778	$ 10,876	$ 2,538	$ 6,853	$ 1,547	$ 2,109	$ 11,046
Financial, Professional & International Insurance	369	6,238	2,301	3,321	429	1,794	638	536	3,393
Personal Insurance	523	3,785	3,149	6,563	548	3,597	1,154	804	6,711
Total Reportable Segments	1,615	59,202	11,228	20,760	3,515	12,244	3,339	3,449	21,150
Other		86			2			333	
Consolidated	$ 1,615	$ 59,288	$ 11,228	$ 20,760	$ 3,517	$ 12,244	$ 3,339	$ 3,782	$ 21,150

(a) See note 2 to the consolidated financial statements for discussion of the method used to allocate net investment income and invested assets to the identified segments.

(b) Expense allocations are determined in accordance with prescribed statutory accounting practices. These practices make a reasonable allocation of all expenses to those product lines with which they are associated.

Table of Contents

SCHEDULE V

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
Valuation and Qualifying Accounts
(in millions)

	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts(1)	Deductions(2)	Balance at end of period
2008					
Reinsurance recoverables	**$ 688**	**$**	**$ 176**	**$ 246**	**$ 618**
Allowance for uncollectible:					
Premiums receivable from underwriting activities	**$ 138**	**$ 41**	**$**	**$ 49**	**$ 130**
Deductibles	**$ 57**	**$ 13**	**$**	**$ 4**	**$ 66**
2007					
Reinsurance recoverables	$ 773	$	$ 6	$ 91	$ 688
Allowance for uncollectible:					
Premiums receivable from underwriting activities	$ 125	$ 75	$	$ 62	$ 138
Deductibles	$ 82	$ (19)	$	$ 6	$ 57
2006					
Reinsurance recoverables	$ 804	$	$ 25	$ 56	$ 773
Allowance for uncollectible:					
Agency loans	$ 3	$ (3)	$	$	$
Premiums receivable from underwriting activities	$ 105	$ 69	$	$ 49	$ 125
Deductibles	$ 93	$	$	$ 11	$ 82

(1) Charged to claims and claim adjustment expenses in the consolidated statement of income.

(2) Credited to the related asset account.

Table of Contents

SCHEDULE VI

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES
Supplementary Information Concerning Property-Casualty Insurance Operations(1)
2006-2008
(in millions)

							Claims and claim adjustment expenses incurred related to:				
Affiliation with Registrant(2)	**Deferred Policy Acquisition Costs**	**Claims and Claim Adjustment Expense Reserves**	**Discount from reserves for unpaid claims**	**Unearned Premiums**	**Earned Premiums**	**Net Investment Income**	**Current year**	**Prior Year**	**Amortization of deferred acquisition costs**	**Paid claims and claim adjustment expenses**	**Premiums written**
2008	**$ 1,774**	**$ 54,646**	**$ 1,012**	**$ 10,957**	**$ 21,579**	**$ 2,792**	**$ 14,504**	**$ (1,725)**	**$ 3,880**	**$ 13,117**	**$ 21,683**
2007	$ 1,809	$ 57,619	$ 1,049	$ 11,227	$ 21,470	$ 3,761	$ 12,848	$ (672)	$ 3,706	$ 11,945	$ 21,618
2006	$ 1,615	$ 59,202	$ 1,069	$ 11,228	$ 20,760	$ 3,517	$ 12,533	$ (429)	$ 3,339	$ 12,911	$ 21,150

(1) Excludes accident and health insurance business.

(2) Consolidated property-casualty insurance operations.

Table of Contents

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 February 18, 2009, are filed herewith.
10.1	Trademark License Agreement, dated as of August 19, 2002, by and between Travelers Property Casualty Corp. ("TPC") and The Travelers Insurance Company, was filed as Exhibit 10.2 to TPC's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2002, and is incorporated herein by reference.
10.2	Revolving Credit Agreement, dated June 10, 2005, between the Company and a syndicate of financial institutions, was filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2005, and is incorporated herein by reference.
10.3*	Amended and Restated Executive Employment Agreement between TPC and Robert I. Lipp, dated as of November 16, 2003, was filed as Exhibit 10.22 to TPC's annual report on Form 10-K for the fiscal year ended December 31, 2003, and is incorporated herein by reference.
10.4*	Assignment and Assumption Agreement, dated as of April 1, 2004, by and between TPC, as the assignor, and the Company, as assignee, relating to the Amended and Restated Executive Employment Agreement between TPC and Robert I. Lipp was filed as Exhibit 10.15 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2004, and is incorporated herein by reference.
10.5*	Letter Agreement between Alan D. Schnitzer and the Company, dated April 15, 2007, was filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2007, and is incorporated herein by reference.
10.6*	The Company's Senior Executive Performance Plan was filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2005, and is incorporated herein by reference.
10.7*	Form of Executive Officer Capital Accumulation Program Restricted Stock Award Notification and Agreement was filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2005, and is incorporated herein by reference.
10.8*	The St. Paul Companies, Inc. ("SPC") Deferred Stock Plan for Non-Employee Directors was filed as Exhibit 10(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2000, and is incorporated herein by reference.
10.9*	The SPC Amended and Restated 1994 Stock Incentive Plan was filed as Exhibit 10(f) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001, and is incorporated herein by reference.
10.10*	The SPC Directors' Charitable Award Program, as amended, was filed as Exhibit 10(d) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2000, and is incorporated herein by reference.

Table of Contents

Exhibit Number	Description of Exhibit
10.11*	The SPC Annual Incentive Plan was filed as an exhibit to the SPC Proxy Statement relating to the SPC 1999 Annual Meeting of Shareholders that was held on May 4, 1999 and is incorporated herein by reference.
10.12*	The SPC Deferred Management Incentive Awards Plan was filed as Exhibit 10(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1997, and is incorporated herein by reference.
10.13*	The SPC Directors' Deferred Compensation Plan was filed as Exhibit 10(b) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1997, and is incorporated herein by reference.
10.14*	The SPC Benefit Equalization Plan 2001 Revision and the first and second amendments thereto were filed as Exhibit 10.27 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004, and are incorporated herein by reference.
10.15*	TPC Compensation Plan for Non-Employee Directors, as amended on January 22, 2004, was filed as Exhibit 10.16 to TPC's annual report on Form 10-K for the fiscal year ended December 31, 2003, and is incorporated herein by reference.
10.16*	TPC 2002 Stock Incentive Plan, as amended effective January 23, 2003, was filed as Exhibit 10.22 to TPC's annual report on Form 10-K for the fiscal year ended December 31, 2002, and is incorporated herein by reference.
10.17*	TPC Deferred Compensation Plan was filed as Exhibit 10.23 to TPC's annual report on Form 10-K for the fiscal year ended December 31, 2002, and is incorporated herein by reference.
10.18*	TPC Benefit Equalization Plan was filed as Exhibit 10.24 to TPC's annual report on Form 10-K for the fiscal year ended December 31, 2002, and is incorporated herein by reference.
10.19*	The Company's Deferred Compensation Plan, as Amended and Restated, effective January 1, 2009, was filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (Registration No. 333-157091) dated February 4, 2009, and is incorporated herein by reference.
10.20*	Amended and Restated Time Sharing Agreement, effective August 5, 2008, by and between the Travelers Companies, Inc. and Jay S. Fishman, was filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2008, and is incorporated herein by reference.
10.21*	The Travelers Severance Plan (as amended through May 10, 2007) was filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2007, and is incorporated herein by reference.
10.22	Amended and Restated Tax Allocation Agreement, dated as of March 27, 2002, between TPC and Citigroup Inc., was filed as Exhibit 10.2 to TPC's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2002, and is incorporated herein by reference.
10.23*	Form of Non-Solicitation and Non-Disclosure Agreement for Executive Officers, amending The St. Paul Travelers Companies, Inc. Severance Plan, was filed as Exhibit 99 to the Company's Form 8-K filed on February 16, 2006, and is incorporated herein by reference.

Table of Contents

Exhibit Number	Description of Exhibit
10.24	Assurance of Discontinuance with the Office of the Attorney General of the State of New York, the Office of the Attorney General of the State of Illinois and the Office of the Attorney General of the State of Connecticut was filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2006, and is incorporated herein by reference.
10.25	Stipulation with the New York State Department of Insurance was filed as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2006, and is incorporated herein by reference.
10.26*	Current Director Compensation Program, effective as of February 4, 2009, is filed herewith.
10.27*	Amended and Restated Employment Agreement between the Company and Jay S. Fishman, dated as of December 19, 2008, is filed herewith.
10.28*	The Travelers Companies, Inc. Amended and Restated 2004 Stock Incentive Plan is filed herewith.
10.29*	The Company's Amended and Restated Deferred Compensation Plan for Non-Employee Directors is filed herewith.
10.30*	Form of Stock Option Grant Notification and Agreement is filed herewith.
10.31*	Form of Performance Share Award Notification and Agreement is filed herewith.
10.32*	Form of Restricted Stock Unit Award Notification and Agreement is filed herewith.
10.33*	Form of 2009 Performance Share Award Notification and Agreement for Jay S. Fishman is filed herewith.
10.34*	Form of Non-Employee Director Annual Deferred Stock Award Notification and Agreement is filed herewith.
10.35*	Fifth Amendment to the Travelers Severance Plan is filed herewith.
10.36*	The Travelers Benefit Equalization Plan, as Amended and Restated effective as of January 1, 2009, is filed herewith.
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 is filed herewith.
21.1	A list of the subsidiaries of the Company is filed herewith.
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm, with respect to the incorporation by reference of KPMG LLP's audit report into Registration Statements on Forms S-8 of the Company (SEC File No. 33-56987, No. 333-50943, No. 333-63114, No. 333-63118, No. 333-65726, No. 333-107698, No. 333-107699, No. 333-114135, No. 333-117726, No. 333-120998, No. 333-128026, No. 333-157091 and No. 333-157092) and Form S-3 (SEC File No. 333-156132) is filed herewith.
24.1	Power of attorney is filed herewith.
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 is filed herewith.
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 is filed herewith.

Table of Contents

Exhibit Number	Description of Exhibit
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 is filed herewith.
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 is filed herewith.

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.

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.

Filed herewith

*

Management contract or compensatory plan in which directors and/or executive officers are eligible to participate.