UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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

385 Washington Street,

St. Paul, MN 55102

(Address of principal executive offices) (Zip Code)

(651) 310-7911

(Registrant s telephone number, including area code)

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

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

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

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

Yes o No x

The number of shares of the Registrant s Common Stock, without par value, outstanding at April 18, 2008 was 604,702,688.

The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended March 31, 2008

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Item 1. FINANCIAL STATEMENTS

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

(in millions, except per share data)

For the three months ended March 31,		2008		2007
Revenues				
Premiums	$	**5,340**	$	5,295
Net investment income		**815**		960
Fee income		**105**		120
Net realized investment gains (losses)		**(62)**		14
Other revenues		**34**		38
Total revenues		**6,232**		6,427
Claims and expenses				
Claims and claim adjustment expenses		**3,021**		3,189
Amortization of deferred acquisition costs		**954**		869
General and administrative expenses		**853**		833
Interest expense		**90**		76
Total claims and expenses		**4,918**		4,967
Income before income taxes		**1,314**		1,460
Income tax expense		**347**		374
Net income	$	**967**	$	1,086
Net income per share				
Basic	$	**1.57**	$	1.62
Diluted	$	**1.54**	$	1.56
Weighted average number of common shares outstanding:				
Basic		**616.2**		669.9
Diluted		**628.1**		701.2

See notes to consolidated financial statements (unaudited).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	March 31, 2008 (Unaudited)	December 31, 2007
Assets		
Fixed maturities, available for sale at fair value (including $1,682 and $1, 988 subject to securities lending) (amortized cost $63,797 and $64,152)	**$ 64,492**	$ 64,920
Equity securities, at fair value (cost $481 and $473)	**479**	488
Real estate	**850**	850
Short-term securities	**4,869**	5,186
Other investments	**3,260**	3,374
Total investments	**73,950**	74,818
Cash	**308**	271
Investment income accrued	**815**	861
Premiums receivable	**6,170**	6,142
Reinsurance recoverables	**15,369**	15,641
Ceded unearned premiums	**1,286**	1,123
Deferred acquisition costs	**1,823**	1,809
Deferred tax asset	**1,233**	1,207
Contractholder receivables	**6,722**	6,696
Goodwill	**3,366**	3,366
Other intangible assets	**778**	814
Other assets	**2,324**	2,476
Total assets	**$ 114,144**	$ 115,224
Liabilities		
Claims and claim adjustment expense reserves	**$ 57,314**	$ 57,700
Unearned premium reserves	**11,242**	11,227
Contractholder payables	**6,722**	6,696
Payables for reinsurance premiums	**828**	618
Debt	**5,841**	6,242
Other liabilities	**5,809**	6,125
Total liabilities	**87,756**	88,608
Shareholders equity		
Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding at both dates)	**108**	112
Common stock (1,750.0 shares authorized; 606.9 and 627.8 shares issued and outstanding)	**19,052**	18,990
Retained earnings	**11,896**	11,110
Accumulated other changes in equity from nonowner sources	**626**	670
Treasury stock, at cost (104.4 and 82.9 shares)	**(5,294)**	(4,266)
Total shareholders equity	**26,388**	26,616
Total liabilities and shareholders equity	**$ 114,144**	$ 115,224

See notes to consolidated financial statements (unaudited).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the three months ended March 31,	2008	2007
Convertible preferred stock savings plan		
Balance, beginning of year	**$ 112**	$ 129
Redemptions during period	**(4)**	(5)
Balance, end of period	**108**	124
Common stock		
Balance, beginning of year	**18,990**	18,530
Employee share-based compensation	**20**	58
Compensation amortization under share-based plans and other changes	**42**	46
Balance, end of period	**19,052**	18,634
Retained earnings		
Balance, beginning of year	**11,110**	7,253
Net income	**967**	1,086
Dividends	**(180)**	(175)
Other	**(1)**	3
Balance, end of period	**11,896**	8,167
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	**670**	452
Change in net unrealized gain on investment securities	**(43)**	(13)
Net change in unrealized foreign currency translation and other changes	**(1)**	(22)
Balance, end of period	**626**	417
Treasury stock (at cost)		
Balance, beginning of year	**(4,266)**	(1,229)
Treasury shares acquired share repurchase authorization	**(1,000)**	(725)
Net shares acquired related to employee share-based compensation plans	**(28)**	(31)
Balance, end of period	**(5,294)**	(1,985)
Total common shareholders equity	**26,280**	25,233
Total shareholders equity	**$ 26,388**	$ 25,357
Common shares outstanding		
Balance, beginning of year	**627.8**	678.3
Shares acquired share repurchase authorization	**(20.8)**	(13.9)
Net shares (acquired) issued under employee share-based compensation plans	**(0.1)**	0.9
Balance, end of period	**606.9**	665.3
Summary of changes in equity from nonowner sources		
Net income	**$ 967**	$ 1,086
Other changes in equity from nonowner sources, net of tax	**(44)**	(35)
Total changes in equity from nonowner sources	**$ 923**	$ 1,051

See notes to consolidated financial statements (unaudited).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

For the three months ended March 31,	**2008**	**2007**
Cash flows from operating activities		
Net income	**$ 967**	$ 1,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment (gains) losses	**62**	(14)
Depreciation and amortization	**213**	205
Deferred federal income tax benefit	**(8)**	(188)
Amortization of deferred policy acquisition costs	**954**	869
Equity in income from other investments	**(17)**	(167)
Premiums receivable	**(28)**	17
Reinsurance recoverables	**272**	548
Deferred acquisition costs	**(968)**	(967)
Claims and claim adjustment expense reserves	**(386)**	(350)
Unearned premium reserves	**15**	60
Trading account activities	**2**	(1)
Gain on redemption of subordinated debentures		(7)
Excess tax benefits from share-based payment arrangements	**(4)**	(9)
Other	**(147)**	(215)
Net cash provided by operating activities	**927**	867
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**1,604**	1,637
Proceeds from sales of investments:		
Fixed maturities	**1,044**	729
Equity securities	**12**	25
Other investments	**246**	325
Purchases of investments:		
Fixed maturities	**(2,350)**	(3,006)
Equity securities	**(21)**	(29)
Real estate	**(9)**	(26)
Other investments	**(123)**	(139)
Net (purchases) sales of short-term securities	**320**	(103)
Securities transactions in course of settlement	**43**	305
Other	**(72)**	(203)
Net cash provided by (used in) investing activities	**694**	(485)
Cash flows from financing activities		
Issuance of debt		986
Payment of debt	**(400)**	(611)
Dividends paid to shareholders	**(179)**	(175)
Issuance of common stock employee share options	**15**	54
Treasury stock acquired share repurchase authorization	**(1,000)**	(698)
Treasury stock acquired net employee share-based compensation	**(26)**	(26)
Excess tax benefits from share-based payment arrangements	**4**	9
Other		(1)
Net cash used in financing activities	**(1,586)**	(462)
Effect of exchange rate changes on cash	**2**	(1)
Net increase (decrease) in cash	**37**	(81)
Cash at beginning of period	**271**	459
Cash at end of period	**$ 308**	$ 378
Supplemental disclosure of cash flow information		
Income taxes paid	**$ 78**	$ 88

Interest paid	**$**	**72**	$	75

See notes to consolidated financial statements (unaudited).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

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

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

Adoption of New Accounting Standards

Accounting for Uncertainty in Income Taxes

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

Under FIN 48, evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position that meets the more-likely-than-not recognition threshold shall initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information.

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

The adoption of FIN 48 effective January 1, 2007 did not have a material effect on the Company s results of operations, financial position or liquidity.

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

In 2007, the Company effectively settled Internal Revenue Service (IRS) tax examinations for all years through December 31, 2004. As a result, the Company recorded an after-tax benefit 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 during 2007.

The Company does not expect any significant changes to its liability for unrecognized tax benefits during the next twelve months.

In May 2007, the FASB issued FASB Staff Position (FSP) FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1). The FSP addresses whether it is appropriate for a company to recognize a previously unrecognized tax benefit when the only factor that has changed since determining that a benefit should not be recognized was the completion of an examination or audit by a taxing authority. FSP FIN 48-1 is effective January 1, 2007, the date of the Company s initial adoption of FIN 48. The adoption of FSP FIN 48-1 did not have a material effect on the Company s results of operations, financial position or liquidity.

Fair Value Measurements

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

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

In February 2008, FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), which permits a one-year deferral of the application of FASB Statement No. 157, *Fair Value Measurements*, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The Company adopted FAS 157 and FSP FAS 157-2 effective January 1, 2008. Accordingly, the provisions of FAS 157 were not applied to goodwill and other intangible assets held by the Company and measured annually for impairment testing purposes only. The adoption of FAS 157, for all other assets and liabilities held by the Company, did not have a material effect on the Company s results of operations, financial position or liquidity. The Company will adopt FAS 157 for non-financial assets and non-financial liabilities on January 1, 2009 and does not expect the provisions to have a material effect on its results of operations, financial position or liquidity.

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 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.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

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

Collateral Assignment Split-Dollar Life Insurance Arrangements

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

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

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

Accounting Standards Not Yet Adopted

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (FAS 161). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities and specifically requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of, and gains and losses on, derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The provisions of FAS 161 are effective for financial statements issued for fiscal years beginning after November 15, 2008.

Business Combinations

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

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

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.

Nature of Operations

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

Business Insurance

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

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

Financial, Professional & International Insurance

The Financial, Professional & International Insurance segment includes surety and financial liability coverages, which require a primarily credit-based underwriting process, as well as property and casualty products that are primarily marketed on an international basis. The segment includes the Bond & Financial Products group as well as the International group.

In March 2007, the Company completed the sale of its Mexican surety subsidiary, Afianzadora Insurgentes, S.A. de C.V., which accounted for $19 million of net written premiums in the first quarter of 2007. The impact of this transaction was not material to the Company s results of operations or financial position.

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.

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 $49 million of net written premiums in the first quarter of 2007. The impact of this transaction was not material to the Company s results of operations or financial position.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION

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

(for the three months ended March 31, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2008				
Premiums	**$ 2,786**	**$ 847**	**$ 1,707**	**$ 5,340**
Net investment income	**573**	**122**	**120**	**815**
Fee income	**105**			**105**
Other revenues	**6**	**5**	**21**	**32**
Total operating revenues (1)	**$ 3,470**	**$ 974**	**$ 1,848**	**$ 6,292**
Operating income (1)	**$ 683**	**$ 208**	**$ 181**	**$ 1,072**
2007				
Premiums	$ 2,763	$ 844	$ 1,688	$ 5,295
Net investment income	694	121	145	960
Fee income	120			120
Other revenues	4	5	24	33
Total operating revenues (1)	$ 3,581	$ 970	$ 1,857	$ 6,408
Operating income (1)	$ 678	$ 156	$ 266	$ 1,100

(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).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended March 31, 2008	2007
Revenue reconciliation		
Earned premiums:		
Business Insurance:		
Commercial multi-peril	**$ 755**	$ 760
Workers compensation	**580**	533
Commercial automobile	**499**	507
Property	**470**	481
General liability	**480**	455
Other	**2**	27
Total Business Insurance	**2,786**	2,763
Financial, Professional & International Insurance:		
Fidelity and surety	**280**	270
General liability	**225**	242
International	**310**	300
Other	**32**	32
Total Financial, Professional & International Insurance	**847**	844
Personal Insurance:		
Automobile	**911**	939
Homeowners and other	**796**	749
Total Personal Insurance	**1,707**	1,688
Total earned premiums	**5,340**	5,295
Net investment income	**815**	960
Fee income	**105**	120
Other revenues	**32**	33
Total operating revenues for reportable segments	**6,292**	6,408
Interest Expense and Other	**2**	5
Net realized investment gains (losses)	**(62)**	14
Total consolidated revenues	**$ 6,232**	$ 6,427
Income reconciliation, net of tax		
Total operating income for reportable segments	**$ 1,072**	$ 1,100
Interest Expense and Other (1)	**(64)**	(22)
Total operating income	**1,008**	1,078
Net realized investment gains (losses)	**(41)**	8
Total consolidated net income	**$ 967**	$ 1,086

(1) The primary component of Interest Expense and Other is after-tax interest expense of $59 million and $49 million for the three months ended March 31, 2008 and 2007, respectively. The 2007 total also included an after-tax benefit of $28 million from the favorable resolution of various prior year federal tax matters.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)	March 31, 2008	December 31, 2007
Asset reconciliation:		
Business Insurance	**$ 86,424**	$ 87,160
Financial, Professional & International Insurance	**14,023**	14,099
Personal Insurance	**13,065**	13,300
Total assets for reportable segments	**113,512**	114,559
Other assets (1)	**632**	665
Total consolidated assets	**$ 114,144**	$ 115,224

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

3. INVESTMENTS

Fixed Maturities

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

(at March 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	**$ 1,783**	**$ 120**	**$**	**$ 1,903**
Obligations of states, municipalities and political subdivisions	**38,241**	**747**	**231**	**38,757**
Debt securities issued by foreign governments	**1,613**	**30**	**1**	**1,642**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**6,870**	**98**	**102**	**6,866**
All other corporate bonds	**15,191**	**255**	**225**	**15,221**
Redeemable preferred stock	**99**	**9**	**5**	**103**
Total	**$ 63,797**	**$ 1,259**	**$ 564**	**$ 64,492**

(at December 31, 2007, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	$ 2,092	$ 58	$	$ 2,150

U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities								
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 TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Equity Securities

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

(at March 31, 2008, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	**$ 170**	**$ 15**	**$ 5**	**$ 180**
Non-redeemable preferred stock	**311**	**11**	**23**	**299**
Total	**$ 481**	**$ 26**	**$ 28**	**$ 479**

(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

Short-term Investments

Short-term investments held in escrow in accordance with the terms of the ACandS settlement had a fair value of $457 million and $454 million at March 31, 2008 and December 31, 2007, respectively. Upon fulfillment of all contingencies, the investments held in escrow will be released to the trust created under ACandS s plan of reorganization. See note 12.

Variable Interest Entities (VIEs)

The following entities are consolidated:

• Municipal Trusts The Company owns interests in various municipal trusts that were formed for the purpose of allowing more flexibility to generate investment income in a manner consistent with the Company s investment objectives and tax position. At March 31, 2008 and December 31, 2007, there were 27 and 31 such trusts, respectively, which held a combined total of $312 million and $355 million, respectively, in municipal securities, of which $45 million and $44 million, respectively, were owned by outside investors. The net carrying value of the trusts owned by the Company at March 31, 2008 and December 31, 2007 was $267 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:

- The Company has a significant variable interest in Camperdown UK Limited, which The St. Paul Companies, Inc. (SPC) sold in December 2003. The Company s variable interest resulted from an agreement to indemnify the purchaser in the event a specified reserve deficiency develops, a reserve-related foreign exchange impact occurs, or a foreign tax adjustment is imposed on a pre-sale reporting period. The maximum amount of this indemnification obligation is $192 million. The carrying value of this obligation at March 31, 2008 and December 31, 2007 was $57 million and $59 million, respectively. See Guarantees section of note 12.

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

The following securities are not consolidated:

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

Unrealized Investment Losses

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

	Less than 12 months		12 months or longer		Total	
(at March 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	10,697	185	1,085	46	11,782	231
Debt securities issued by foreign governments	113		185	1	298	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,218	72	1,209	30	3,427	102
All other corporate bonds	2,714	108	3,012	117	5,726	225
Redeemable preferred stock	43	4	15	1	58	5
Total fixed maturities	15,785	369	5,506	195	21,291	564
Equity securities						

Common stock	**45**	**5**			**45**	**5**
Nonredeemable preferred stock	**91**	**15**	**90**	**8**	**181**	**23**
Total equity securities	**136**	**20**	**90**	**8**	**226**	**28**
Total	**$ 15,921**	**$ 389**	**$ 5,596**	**$ 203**	**$ 21,517**	**$ 592**

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at December 31, 2007, in millions)	Less than 12 months 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
Nonredeemable preferred stock	110	9	80	7	190	16
Total equity securities	139	10	80	7	219	17
Total	$ 7,508	$ 95	$ 11,500	$ 228	$ 19,008	$ 323

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Fixed maturities	**$ 26**	$ 1
Equity securities	**2**	1
Other investments	**10**	7
Total	**$ 38**	$ 9

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:

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

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

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

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

Valuation of Investments

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

Fixed Maturities

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

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 TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

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

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

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

Equities

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

The Company holds investments in non-public common and preferred stocks (private equities) 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 where 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 estimate 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 estimate 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, information concerning market participants is not available and the Company includes the estimate in the amount disclosed in Level 3. The Company bifurcates the embedded conversion options based on observable market inputs and includes the estimate of fair value in Level 2.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Fair Value Hierarchy

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

(in millions)		Total		Level 1		Level 2		Level 3
Invested assets:								
Fixed maturities	$	64,492	$	1,952	$	62,328	$	212
Equity securities		479		471		8		
Other		353		46				307
Total	$	65,324	$	2,469	$	62,336	$	519
Other liabilities	$	1	$	1	$		$	

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

(in millions)		Total
Balance at January 1, 2008	$	511
Total realized and unrealized gains or (losses):		
Included in realized investment gains and (losses)		(15)
Included in increases or (decreases) in accumulated other changes in equity from nonowner sources		(10)
Purchases, issuances and settlements		3
Transfers in and/or (out) of Level 3		30
Balance at March 31, 2008	$	519
Amount of total gains or (losses) for the period included in earnings attributable to the fair value of changes in assets still held at the reporting date	$	(16)

The Company had no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the three months ended March 31, 2008.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

Other Intangible Assets

The following presents a summary of the Company s other intangible assets by major asset class as of March 31, 2008 and December 31, 2007:

(At March 31, 2008, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	**$ 1,036**	**$ 683**	**$ 353**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	**191**	**(18)**	**209**
Total intangible assets subject to amortization	**1,227**	**665**	**562**
Intangible assets not subject to amortization	**216**		**216**
Total other intangible assets	**$ 1,443**	**$ 665**	**$ 778**

(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

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

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

(for the three months ended March 31, in millions)	2008	2007
Customer-related	**$ 28**	$ 33

Fair value adjustment on claims and claim adjustment expensereserves and reinsurance recoverables		**8**		6
Total amortization expense	**$**	**36**	$	39

Intangible asset amortization expense is estimated to be $91 million for the remainder of 2008, $100 million in 2009, $86 million in 2010, $69 million in 2011 and $52 million in 2012.

6. DEBT

In March 2008, the Company s $400 million, 3.75% senior notes matured and were fully paid.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

7. SHARE REPURCHASE AUTHORIZATION

In January 2008, the board of directors authorized an additional $5 billion for the repurchase of the Company common shares. Under the authorization, repurchases may be made from time to time in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorization does not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including corporate and regulatory requirements, price, catastrophe losses and other market conditions. During the three months ended March 31, 2008, the Company repurchased 20.8 million shares under its share repurchase authorization for a total cost of approximately $1.00 billion. The average cost per share repurchased was $48.02. At March 31, 2008, the Company had $4.93 billion of capacity remaining under the share repurchase authorization.

8. CHANGES IN EQUITY FROM NONOWNER SOURCES

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

	Three Months Ended March 31,	
(in millions, after-tax)	**2008**	**2007**
Net income	**$ 967**	$ 1,086
Change in net unrealized gain on investment securities	**(43)**	(13)
Other changes	**(1)**	(22)
Total changes in equity from nonowner sources	**$ 923**	$ 1,051

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

9. EARNINGS PER SHARE

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

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

(in millions, except per share amounts)	Three Months Ended March 31, 2008		2007	
Basic				
Net income, as reported	**$**	**967**	$	1,086
Preferred stock dividends, net of taxes		**(1)**		(1)
Net income available to common shareholders basic	**$**	**966**	$	1,085
Diluted				
Net income available to common shareholders	**$**	**966**	$	1,085
Effect of dilutive securities:				
Convertible preferred stock		**1**		1
Zero coupon convertible notes		**1**		1
Convertible junior subordinated notes (1)				7
Net income available to common shareholders diluted	**$**	**968**	$	1,094
Common Shares				
Basic				
Weighted average shares outstanding		**616.2**		669.9
Diluted				
Weighted average shares outstanding		**616.2**		669.9
Weighted average effects of dilutive securities:				
Stock options and other incentive plans		**6.9**		9.1
Convertible preferred stock		**2.6**		3.1
Zero coupon convertible notes		**2.4**		2.4
Convertible junior subordinated notes (1)				16.7
Total		**628.1**		701.2
Net Income per Common Share				
Basic	**$**	**1.57**	$	1.62
Diluted	**$**	**1.54**	$	1.56

(1) Redeemed in April 2007.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

10. SHARE-BASED INCENTIVE COMPENSATION

The following presents information for fully vested stock option awards at March 31, 2008:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value ($ in millions)
Vested at end of period (1)	**30,302,493**	**$ 44.35**	**4.69 years**	**$ 106**
Exercisable at end of period	**27,435,422**	**$ 44.22**	**4.32 years**	**$ 100**

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

The total compensation cost recognized in earnings for all share-based incentive compensation awards was $38 million and $35 million for the periods ended March 31, 2008 and 2007, respectively. The related tax benefit recognized in earnings was $13 million and $11 million for the periods ended March 31, 2008 and 2007, respectively. The impact of the change in accounting policy upon adoption of FAS 123R, *Share-Based Compensation*, for employees that met the requisite service conditions before the awards vesting date, generally retirement eligible employees, was not material for the periods ended March 31, 2008 and 2007.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at March 31, 2008 was $189 million, which is expected to be recognized over a weighted-average period of 2.1 years. The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at December 31, 2007 was $118 million, which was expected to be recognized over a weighted-average period of 1.7 years.

11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

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

(for the three months ended March 31, in millions)	Pension Plans 2008	2007	Postretirement Benefit Plans 2008	2007
Net Periodic Benefit Cost:				
Service cost	**$ 19**	$ 17	**$**	$
Interest on benefit obligation	**29**	28	**4**	4
Expected return on plan assets	**(38)**	(38)		
Amortization of unrecognized:				
Prior service benefit	**(1)**	(1)		
Net actuarial loss (gain)	**2**	1	**(1)**	(1)
Net benefit expense	**$ 11**	$ 7	**$ 3**	$ 3

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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

Asbestos- and Environmental-Related Proceedings

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

Travelers Property Casualty Corp. (TPC), a wholly-owned subsidiary of the Company, is involved in three significant proceedings relating to ACandS, Inc. (ACandS), formerly a national distributor and installer of products containing asbestos. The proceedings, which are pending in the U.S. Bankruptcy Court for the District of Delaware (*In re: ACandS, Inc.*) and the U.S. District Court for the District of Pennsylvania (*ACandS, Inc. v. Travelers Casualty and Surety Co.,* No. 03-MC-222 and *ACandS, Inc. v. Travelers Casualty and Surety Co.,* 00-CV-4633), involve disputes as to whether and to what extent any of ACandS potential liabilities for current or future bodily injury asbestos claims are covered by insurance policies issued by TPC.

On July 6, 2007, the Company announced that it entered into a settlement to resolve fully all current and future asbestos-related coverage claims relating to ACandS, including the three proceedings mentioned above. Under the settlement agreement, the Company will contribute $449 million to a trust to be established pursuant to ACandS plan of reorganization. In exchange, the Company will be released from any obligations it has to ACandS for asbestos-related claims and will be protected from any such claims by injunctions to be issued in the Company s favor by the federal court overseeing ACandS bankruptcy case. The settlement is subject to a number of contingencies. Pursuant to the settlement agreement, ACandS and the Company have agreed to stay the claims against each other in the three proceedings described above. Once all of the contingencies of the settlement are satisfied, these claims will be dismissed with prejudice.

On August 27, 2007, the bankruptcy court overseeing ACandS bankruptcy approved the settlement and no appeals from that approval were taken. As a result, the Company has placed $449 million into escrow. Upon fulfillment of all remaining contingencies, including final court approval of a plan of reorganization for ACandS and the issuance of the injunctions described above, those funds will be released from escrow to the trust created under ACandS plan of reorganization. Objections to ACandS plan of reorganization were due on March 24, 2008. Several parties filed objections. A hearing to consider the confirmation of ACandS plan of reorganization is scheduled for May 6, 2008. If the plan is approved by final order and if all remaining contingencies are fulfilled, the release of the funds from escrow to the trust will be recorded as a paid claim and reduction in claim reserves, and accordingly, there will be no effect on the Company s results of operations. The Company expects to seek to recover approximately $84 million of the $449 million from reinsurers.

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 cases were subsequently 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 West Virginia, Massachusetts and Hawaii state courts (these suits are collectively referred to as the Statutory and Hawaii Actions).

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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 a petition for rehearing and/or rehearing *en banc*, requesting reinstatement of the district court s judgment. The petition is presently pending. Unless the Second Circuit s decision is reversed on further appeal 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 and 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.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Shareholder Litigation and Related Proceedings

In November 2004, two purported class actions were brought in the U.S. District Court for the District of Minnesota by certain shareholders of the Company against the Company and certain of its current and former officers and directors. These two actions were consolidated as *In re St. Paul Travelers Securities Litigation II.* An amended consolidated complaint was filed alleging violations of federal securities laws in connection with (i) the Company s alleged failure to make disclosure relating to the practice of paying brokers commissions on a contingent basis, (ii) the Company s alleged involvement in a conspiracy to rig bids and (iii) the Company s allegedly improper use of finite reinsurance products. On January 17, 2008, the parties in *In re St. Paul Travelers Securities Litigation II* entered into a stipulation of settlement resolving the case. The settlement, which is subject to court approval, will not have a material impact on the Company s results of operations.

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. The Court has not yet set a date for oral argument. 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.

The Company is a defendant in three consolidated lawsuits in the U.S. District Court for the Eastern District of Louisiana arising out of disputes with certain policyholders over whether insurance coverage is available for flood losses arising from Hurricane Katrina: *Chehardy, et al. v. State Farm, et al.*, *Vanderbrook, et al. v. State Farm Fire & Cas. Co.*, *et al.,* and *Xavier University of Louisiana v. Travelers Property Ca. Co. of America*. *Chehardy* and *Vanderbrook* are purported class actions in which the Company is one of several insurer defendants. *Xavier* is an individual suit involving a property insurance policy brought by one of the Company s insureds. All of these actions allege that the losses were caused by the failure of the New Orleans levees and, therefore, they allege that insurance coverage is available for the resulting flooding. On November 27, 2006, the district court issued a ruling in the three consolidated cases denying the motions of the Company and certain other insurers for a summary disposition of the cases.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

On August 2, 2007, the U.S. Court of Appeals for the Fifth Circuit reversed the district court s ruling, holding that there is no coverage for the plaintiffs flood losses under the policies at issue (including policies issued by the Company) because the policies flood exclusions unambiguously exclude coverage. On August 27, 2007, the Fifth Circuit denied the plaintiffs petition for rehearing. The plaintiffs filed a Petition for Writ of Certiorari with the U.S. Supreme Court, which was denied on February 19, 2008.

The district court to which these cases were remanded following the Fifth Circuit decision discussed above, issued an order staying all proceedings concerning the interpretation of the flood exclusion pending a decision by the Louisiana Supreme Court in an appeal entitled *Joseph Sher v. Lafayette Insurance Co., et al.* *Sher* is an appeal from a decision of a Louisiana state appellate court in which, contrary to the Fifth Circuit s ruling discussed above, certain judges on the panel ruled that the flood exclusion at issue in the case is ambiguous, in which case insurance coverage may be available for flood losses. Although the Company is not a party to *Sher*, the district court issued the stay on the basis that the Louisiana Supreme Court s decision in *Sher* could be relevant to the outcome of the district court cases. On April 8, 2008, the Louisiana Supreme Court issued a decision in *Sher* holding, consistent with the Fifth Circuit ruling discussed above, that the flood exclusion is unambiguous and, therefore, insurance coverage is not available for the plaintiffs flood losses. On April 22, 2008, the plaintiff filed an application for rehearing.

As previously disclosed, as part of ongoing, industry-wide investigations, the Company and its affiliates have 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 is cooperating with these subpoenas and requests for information. In addition, outside counsel, with the oversight of the Company s board of directors, conducted an internal review of certain of the Company s business practices. This review initially focused on the Company s relationship with brokers and was commenced after the announcement of litigation brought by the New York Attorney General s office against a major broker.

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

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

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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 Management s Discussion and Analysis of Financial Condition and Results of Operations Other Matters. After discussion with the staff of the Division of Corporate Finance and the Company s independent auditors, the Company continues to believe that its accounting treatment for these adjustments is appropriate. On May 3, 2006, the Company received a letter from the Division of Enforcement of the SEC (the Division) advising the Company that it is conducting an inquiry relating to the second quarter 2004 adjustments and the April 1, 2004 merger of SPC and TPC. The Company has been cooperating 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 $1.59 billion and $1.60

billion at March 31, 2008 and December 31, 2007, respectively.

Guarantees

The Company has certain contingent obligations for guarantees related to letters of credit, issuance of debt securities, certain investments and third party loans related to certain investments, and various indemnifications related to the sale of business entities. The Company also provides standard indemnifications to service providers in the normal course of business. The indemnification clauses are often standard contractual terms.

At March 31, 2008, the aggregate amount of the Company s obligations for guarantees of certain investments and third party loans related to certain investments that are quantifiable was $58 million.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

In the ordinary course of selling business entities to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the business entities being sold, covenants and obligations of the Company and/or its subsidiaries following the closing, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development, imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, or certain named litigation. Such indemnification provisions generally survive for periods ranging from 12 months following the applicable closing date to the expiration of the relevant statutes of limitations, or in some cases agreed upon term limitations. As of March 31, 2008, the aggregate amount of the Company s obligation for those indemnifications that are quantifiable related to sales of business entities was $1.86 billion. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. Included in the indemnification obligations at March 31, 2008 was $192 million related to the Company s variable interest in Camperdown UK Limited, which SPC sold in December 2003. The Company s variable interest results from an agreement to indemnify the purchaser in the event a specified reserve deficiency develops, a reserve-related foreign exchange impact occurs, or a foreign tax adjustment is imposed on a pre-sale reporting period. The carrying value of this obligation as of March 31, 2008 was $57 million, which was included in Other Liabilities on the Company s consolidated balance sheet.

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

The following consolidating financial statements of the Company have been prepared pursuant to Rule 3-10 of Regulation S-X. These consolidating financial statements have been prepared from the Company s financial information on the same basis of accounting as the consolidated financial statements. The Travelers Companies, Inc. has fully and unconditionally guaranteed certain debt obligations of TPC, its wholly-owned subsidiary, which totaled $1.20 billion at March 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, Travelers Insurance Group Holdings, Inc. (TIGHI). The Travelers Companies, Inc. has fully and unconditionally guaranteed such guarantee obligations of TPC. TPC is deemed to have no assets or operations independent of TIGHI. Consolidating financial information for TIGHI has not been presented herein because such financial information would be substantially the same as the financial information provided for TPC.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2008

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,600	$ 1,740	$	$	$ 5,340
Net investment income	532	269	14		815
Fee income	105				105
Net realized investment gains (losses)	(58)	11	(15)		(62)
Other revenues	6	27	3	(2)	34
Total revenues	4,185	2,047	2	(2)	6,232
Claims and expenses					
Claims and claim adjustment expenses	2,091	930			3,021
Amortization of deferred acquisition costs	649	305			954
General and administrative expenses	571	285	(3)		853
Interest expense	20	2	70	(2)	90
Total claims and expenses	3,331	1,522	67	(2)	4,918
Income (loss) before income taxes	854	525	(65)		1,314
Income tax expense (benefit)	214	141	(8)		347
Equity in net income of subsidiaries			1,024	(1,024)	
Net income	$ 640	$ 384	$ 967	$ (1,024)	$ 967

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2007

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,518	$ 1,777	$	$	$ 5,295
Net investment income	632	312	16		960
Fee income	116	4			120
Net realized investment gains	10		4		14
Other revenues	23	13	5	(3)	38
Total revenues	4,299	2,106	25	(3)	6,427
Claims and expenses					
Claims and claim adjustment expenses	2,112	1,077			3,189
Amortization of deferred acquisition costs	562	307			869
General and administrative expenses	548	274	11		833
Interest expense	29	2	48	(3)	76
Total claims and expenses	3,251	1,660	59	(3)	4,967
Income (loss) before income taxes	1,048	446	(34)		1,460
Income tax expense	257	101	16		374
Equity in net income of subsidiaries			1,136	(1,136)	
Net income	$ 791	$ 345	$ 1,086	$ (1,136)	$ 1,086

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At March 31, 2008

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale at fair value (including $1,682 subject to securities lending) (amortized cost $63,797)	$ 41,810	$ 22,296	$ 386	$	$ 64,492
Equity securities, at fair value (cost $481)	271	144	64		479
Real estate	1	849			850
Short-term securities	2,366	1,377	1,126		4,869
Other investments	2,277	860	123		3,260
Total investments	46,725	25,526	1,699		73,950
Cash	171	136	1		308
Investment income accrued	523	287	7	(2)	815
Premiums receivable	4,067	2,103			6,170
Reinsurance recoverables	9,797	5,572			15,369
Ceded unearned premiums	1,014	272			1,286
Deferred acquisition costs	1,536	287			1,823
Deferred tax asset	910	273	50		1,233
Contractholder receivables	4,963	1,759			6,722
Goodwill	2,412	954			3,366
Other intangible assets	414	364			778
Investment in subsidiaries			29,404	(29,404)	
Other assets	1,841	410	192	(119)	2,324
Total assets	$ 74,373	$ 37,943	$ 31,353	$ (29,525)	$ 114,144
Liabilities					
Claims and claim adjustment expense reserves	$ 36,722	$ 20,592	$	$	$ 57,314
Unearned premium reserves	7,735	3,507			11,242
Contractholder payables	4,963	1,759			6,722
Payables for reinsurance premiums	486	342			828
Debt	1,196	102	4,662	(119)	5,841
Other liabilities	3,740	1,768	303	(2)	5,809
Total liabilities	54,842	28,070	4,965	(121)	87,756
Shareholders equity					
Preferred Stock Savings Plan convertible preferred stock (0.3 shares issued and outstanding)			108		108

Common stock (1,750.0 shares authorized; 606.9 shares issued and outstanding)		396	19,052	(396)	19,052
Additional paid-in capital	11,052	7,191		(18,243)	
Retained earnings	8,027	2,017	11,896	(10,044)	11,896
Accumulated other changes in equity from nonowner sources	452	269	626	(721)	626
Treasury stock, at cost (104.4 shares)			(5,294)		(5,294)
Total shareholders equity	19,531	9,873	26,388	(29,404)	26,388
Total liabilities and shareholders equity	$ 74,373	$ 37,943	$ 31,353	$ (29,525)	$ 114,144

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At December 31, 2007

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

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.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the three months ended March 31, 2008

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 640	$ 384	$ 967	$ (1,024)	$ 967
Net adjustments to reconcile net income to net cash provided by operating activities	221	(278)	143	(126)	(40)
Net cash provided by operating activities	861	106	1,110	(1,150)	927
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	907	691	6		1,604
Proceeds from sales of investments:					
Fixed maturities	841	196	7		1,044
Equity securities	3	9			12
Other investments	122	124			246
Purchases of investments:					
Fixed maturities	(1,462)	(888)			(2,350)
Equity securities	(1)	(20)			(21)
Real estate		(9)			(9)
Other investments	(80)	(43)			(123)
Net (purchases) sales of short-term securities	356	(86)	50		320
Securities transactions in course of settlement	(6)	49			43
Other	(72)				(72)
Net cash provided by investing activities	608	23	63		694
Cash flows from financing activities					
Issuance of debt					
Payment of debt	(400)				(400)
Dividends paid to shareholders			(179)		(179)
Issuance of common stock employee share options			15		15
Treasury stock acquired share repurchase authorization			(1,000)		(1,000)
Treasury stock acquired net employee share-based compensation			(26)		(26)
Excess tax benefits from share-based payment arrangements			4		4
Dividends paid to parent company	(1,100)			1,100	

Capital contributions and loans between subsidiaries		(50)		50	
Net cash used in financing activities	(1,500)	(50)	(1,186)	1,150	(1,586)
Effect of exchange rate changes on cash		2			2
Net increase (decrease) in cash	(31)	81	(13)		37
Cash at beginning of period	202	55	14		271
Cash at end of period	$ 171	$ 136	$ 1	$	$ 308
Supplemental disclosure of cash flow information					
Income taxes paid	$ 59	$ 1	$ 18	$	$ 78
Interest paid	$ 36	$	$ 36	$	$ 72

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the three months ended March 31, 2007

(in millions)	**TPC**	**Other Subsidiaries**	**Travelers (1)**	**Eliminations**	**Consolidated**
Cash flows from operating activities					
Net income	$ 791	$ 345	$ 1,086	$ (1,136)	$ 1,086
Net adjustments to reconcile net income to net cash provided by operating activities	(236)	(16)	(803)	836	(219)
Net cash provided by operating activities	555	329	283	(300)	867
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	943	689	5		1,637
Proceeds from sales of investments:					
Fixed maturities	473	255	1		729
Equity securities	21	4			25
Other investments	261	64			325
Purchases of investments:					
Fixed maturities	(1,815)	(1,191)			(3,006)
Equity securities	(29)				(29)
Real estate		(26)			(26)
Other investments	(117)	(22)			(139)
Net (purchases) sales of short-term securities	(291)	12	176		(103)
Securities transactions in course of settlement	196	109			305
Other	(260)	57			(203)
Net cash provided by (used in) investing activities	(618)	(49)	182		(485)
Cash flows from financing activities					
Issuance of debt			986		986
Payment of debt			(611)		(611)
Dividends paid to shareholders			(175)		(175)
Issuance of common stock employee share options			54		54
Treasury stock acquired share repurchase authorization			(698)		(698)
Treasury stock acquired net employee share-based compensation			(26)		(26)
Excess tax benefits from share-based payment arrangements			9		9

Dividends paid to parent company		(300)		300	
Capital contributions and loans between subsidiaries		4	(4)		
Other			(1)		(1)
Net cash used in financing activities		(296)	(466)	300	(462)
Effect of exchange rate changes on cash		(1)			(1)
Net decrease in cash	(63)	(17)	(1)		(81)
Cash at beginning of period	325	130	4		459
Cash at end of period	$ 262	$ 113	$ 3	$	$ 378
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 94	$ 1	$ (7)	$	$ 88
Interest paid	$ 46	$	$ 29	$	$ 75

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

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

EXECUTIVE SUMMARY

2008 First Quarter Consolidated Results of Operations

- Net income of $967 million, or $1.57 per share basic and $1.54 per share diluted
- Net earned premiums of $5.34 billion
- Net favorable prior year reserve development of $400 million pretax ($261 million after-tax)
- Catastrophe losses of $95 million pretax ($62 million after-tax)
- GAAP combined ratio of 87.6%
- Net investment income of $815 million pretax ($650 million after-tax)

2008 First Quarter Consolidated Financial Condition

- Total assets of $114.14 billion
- Total investments of $73.95 billion; fixed maturities and short-term securities comprise 94% of total investments

- Repurchased 20.8 million common shares for total cost of approximately $1.00 billion under the share repurchase authorization; remaining authorized share repurchase capacity of $4.93 billion at March 31, 2008

- Shareholders equity of $26.39 billion; book value per common share of $43.31, up 3% from December 31, 2007

- Holding company liquidity of $1.51 billion

CONSOLIDATED OVERVIEW

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

Consolidated Results of Operations

(for the three months ended March 31, in millions except ratio and per share data)	2008	2007
Revenues		
Premiums	**$ 5,340**	$ 5,295
Net investment income	**815**	960
Fee income	**105**	120
Net realized investment gains (losses)	**(62)**	14
Other revenues	**34**	38
Total revenues	**6,232**	6,427
Claims and expenses		
Claims and claim adjustment expenses	**3,021**	3,189
Amortization of deferred acquisition costs	**954**	869
General and administrative expenses	**853**	833
Interest expense	**90**	76
Total claims and expenses	**4,918**	4,967
Income before income taxes	**1,314**	1,460
Income tax expense	**347**	374
Net income	**$ 967**	$ 1,086
Net income per share		
Basic	**$ 1.57**	$ 1.62
Diluted	**$ 1.54**	$ 1.56
GAAP combined ratio		
Loss and loss adjustment expense ratio	**55.7%**	59.2%
Underwriting expense ratio	**31.9**	30.0
GAAP combined ratio	**87.6%**	89.2%

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

Overview

Net income of $1.54 per common share in the first quarter of 2008 was 1% lower than the $1.56 per common share in the same period of 2007. Net income in the first quarter of 2008 totaled $967 million, 11% lower than $1.09 billion in the same period of 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 in the preceding twelve months. The decrease in net income in the first quarter of 2008 was driven by a decline in net investment income, net realized investment losses (compared with net realized investment gains in the first quarter of 2007), increases in catastrophe losses, large property losses and non-catastrophe related weather losses, and the impact of competitive market conditions on current accident year results. These factors were largely offset by a significant increase in net favorable prior year reserve development, which totaled $400 million in the first quarter of 2008, compared with $62 million in the same period of 2007. Catastrophe losses in the first quarters of 2008 and 2007 totaled $95 million and $45 million, respectively. In addition, net income in the first quarter of 2007 included a net benefit of $72 million due to the implementation of a new fixed, value-based compensation program for the majority of the Company s agents and a benefit of $28 million due to the favorable resolution of various prior year federal tax matters.

Revenues

Earned Premiums

Earned premiums in the first quarter of 2008 totaled $5.34 billion, an increase of $45 million, or 1%, over the same period of 2007. In March 2007, the Company sold its Mexican surety subsidiary, Afianzadora Insurgentes, S.A. de C.V. (Afianzadora Insurgentes), and in April 2007, the Company sold Mendota Insurance Company and its subsidiaries (collectively, Mendota), which primarily offered nonstandard automobile coverage. Adjusting for the impact of these sales in 2007, earned premiums in the first quarter of 2008 increased 2% over the same period of 2007. In the Business Insurance segment, earned premium growth of 1% in the first quarter of 2008 over the same 2007 period primarily reflected the impact of the growth in business volume during the preceding twelve months. In the Financial, Professional & International Insurance segment, earned premium growth of 3% in the first quarter of 2008 over the same period of 2007 adjusted for the sale of Afianzadora Insurgentes was primarily driven by the favorable impact of foreign currency rates of exchange. In the Personal Insurance segment, earned premium growth of 4% in the first quarter of 2008 over the same period of 2007 adjusted for the sale of Mendota reflected continued strong business retention rates, continued renewal price increases and growth in new business volumes during the preceding twelve months.

Net Investment Income

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

(for the three months ended March 31, in millions)	**2008**	**2007**
Average investments (a)	**$ 74,733**	$ 72,737
Pretax net investment income	**815**	960
After-tax net investment income	**650**	737
Average pretax yield (b)	**4.4%**	5.3%
Average after-tax yield (b)	**3.5%**	4.1%

(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 $815 million in the first quarter of 2008 declined $145 million, or 15%, from the same period of 2007. The 2007 first quarter total reflected significant returns from non-fixed maturity investments that are accounted for under the equity method of accounting. Most notably, investment returns from real estate-related equity investments, private equity investments and hedge funds produced net investment income that was $144 million higher in the first quarter of 2007 compared to the same period of 2008. The lower returns from these investments in 2008 reflect current market conditions, which resulted in a lower level of transactions compared to the prior year quarter. Net investment income from the Company s fixed maturity portfolio in the first quarter of 2008 increased over the same period of 2007, due to a higher level of invested assets, partially offset by a decline in short-term interest rates. The amortized cost of the fixed maturity portfolio at March 31, 2008 totaled $63.80 billion, $1.08 billion higher than at the same date in 2007, primarily reflecting strong cash flows from operating activities over the preceding twelve months, partially offset by the Company s common share repurchases during that period. The average pretax investment yield was 4.4% in the first quarter of 2008, compared with 5.3% in the same period of 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 $15 million decline in fee income in the first quarter of 2008 compared with the same period of 2007 is described in the Business Insurance segment discussion that follows.

Net Realized Investment Gains (Losses)

Net realized investment losses in the first quarter of 2008 totaled $62 million, compared with net realized investment gains of $14 million in the same period of 2007. The 2008 and 2007 totals included $38 million and $9 million, respectively, of impairment losses. Impairments in 2008 were concentrated in the fixed maturity portfolio and included $10 million of impairments related to externally managed fixed maturity securities with respect to which the Company does not have the ability to assert an intention to hold until recovery in market value. An additional $9 million of impairment losses in the fixed maturity portfolio were related to securities that were previously managed externally and which the Company intends to sell and thus no longer has the intent to hold until recovery in market value. The remaining impairment losses in the fixed maturity portfolio were primarily related to various issuers deteriorated financial position. Net realized investment losses in the first quarter of 2008 also included $16 million of net realized investment losses related to the Company s holdings of stock purchase warrants of a publicly-held company, and $14 million of net realized investment losses related to U.S. Treasury futures contracts, which are used to shorten the duration of the Company s fixed maturities portfolio. The weighted average credit quality of the Company s fixed maturity portfolio, excluding U.S. Treasury securities, was Aa1 at March 31, 2008.

Written Premiums

Consolidated gross and net written premiums were as follows:

	Gross Written Premiums	
(for the three months ended March 31, in millions)	**2008**	**2007**
Business Insurance	**$ 3,308**	$ 3,387
Financial, Professional & International Insurance	**946**	975
Personal Insurance	**1,679**	1,709
Total	**$ 5,933**	$ 6,071

	Net Written Premiums	
(for the three months ended March 31, in millions)	**2008**	**2007**
Business Insurance	**$ 2,911**	$ 2,880
Financial, Professional & International Insurance	**644**	600
Personal Insurance	**1,633**	1,664
Total	**$ 5,188**	$ 5,144

Gross written premiums in the first quarter of 2008 decreased 2% from the same period of 2007, whereas net written premiums increased 1% over the first quarter of 2007. Afianzadora Insurgentes and Mendota generated combined net written premiums of $68 million in the first quarter of 2007. Adjusting for the impact of that premium volume in 2007, gross and net written premiums in the first quarter of 2008 decreased 1% and increased 2%, respectively, over the comparable totals in the first quarter of 2007. In Business Insurance, net written premium growth of 1% in the first quarter of 2008 was concentrated in Commercial Accounts, reflecting increased sales of additional products to existing customers and strong business retention rates, and in Industry-Focused Underwriting, primarily driven by strong business retention rates coupled with higher new business volume in selected business units. In Financial, Professional & International Insurance, net written premiums excluding the impact of the sale of Afianzadora Insurgentes in 2007 increased 11% over the first quarter of 2007, primarily reflecting 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, the favorable impact of foreign currency exchange rates in the International group and continued growth in construction surety business volume due to strong economic conditions in the public works sector of the construction industry. The impact of these factors was largely offset by a decline in net written premiums in the Lloyd s operation due to exposure changes within the Accident and Special Risks business unit, and the non-renewal of certain property business in Canada. In the Personal Insurance segment, net written premiums excluding the impact of the sale of Mendota in 2007 increased 1% over the first quarter of 2007, reflecting continued strong retention rates and renewal price increases.

Claims and Expenses

Claims and claim adjustment expenses totaled $3.02 billion in the first quarter of 2008, $168 million, or 5%, lower than the first quarter 2007 total of $3.19 billion. The 2008 total included $400 million of net favorable prior year reserve development and $95 million of catastrophe losses, whereas the 2007 first quarter total included $62 million of net favorable prior year reserve development and $45 million of catastrophe losses. The sales of Afianzadora Insurgentes and Mendota in 2007 also contributed to the decline in claim and claim adjustment expenses in the first quarter of 2008. Catastrophe losses in the first quarters of both 2008 and 2007 primarily resulted from several tornadoes and hail storms.

The Company s three business segments each experienced net favorable prior year reserve development in the first quarter of 2008. The majority of net favorable prior year reserve development occurred in the Business Insurance segment and resulted from better than expected loss development primarily for recent accident years in the commercial multi-peril, general liability and property product lines. The Financial, Professional & International Insurance segment experienced better than expected loss experience primarily in the International group s employers liability (workers compensation), and public and products liability (general liability) lines of business for recent accident years. In the Personal Insurance segment, net favorable prior year reserve development was concentrated in the Homeowners and Other line of business. Net favorable prior year reserve development in the first quarter of 2007 was concentrated in the Personal Insurance segment, resulting from better than expected personal auto bodily injury loss experience, and in several lines of business in the Business Insurance segment. Factors contributing to net favorable prior year reserve development in each segment are discussed in more detail in the segment discussions that follow.

The amortization of deferred acquisition costs totaled $954 million in the first quarter of 2008, $85 million, or 10%, higher than the comparable 2007 total of $869 million. The increase reflected the impact of the Company s implementation of a new fixed agent compensation program, as well as the impact of growth in business volume. 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 in prior years; however, the change to the new program created a difference in the timing of commission expense recognition. The cost of the new program is required to be deferred and amortized over the related policy period (generally six to twelve months), whereas the cost of the contingent commission program was not subject to deferred acquisition cost accounting treatment and, therefore, was expensed as incurred. That timing difference resulted in a net $72 million benefit to income during the first quarter of 2007.

General and administrative expenses totaled $853 million in the first quarter of 2008, an increase of $20 million, or 2%, over the comparable 2007 total of $833 million. The increase reflected growth in business volume and continued investments to support business growth and product development, partially offset by the impact of the sales of Afianzadora Insurgentes and Mendota in 2007.

Interest Expense

Interest expense of $90 million in the first quarter of 2008 was $14 million higher than in the same period of 2007, primarily reflecting a higher average level of debt outstanding at a higher weighted average interest rate during the first quarter of 2008 compared with the same period of 2007.

GAAP Combined Ratios

The consolidated loss and loss adjustment expense ratio of 55.7% in the first quarter of 2008 was 3.5 points lower than the loss and loss adjustment expense ratio of 59.2% in the same 2007 period. The 2008 and 2007 first quarter loss and loss adjustment expense ratios included a 7.5 point and a 1.2 point benefit from net favorable prior year reserve development, respectively. Catastrophe losses accounted for 1.8 points of the 2008 first quarter loss and loss adjustment expense ratio, whereas the 2007 first quarter loss and loss adjustment expense ratio included a 0.9 point impact from catastrophe losses. The 2008 first quarter loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development was nearly two points higher than the 2007 ratio on the same basis, reflecting certain large property losses in the Business Insurance segment, non-catastrophe related weather losses in the Personal Insurance segment, and the impact of competitive market conditions on current accident year loss experience across the Company s insurance operations.The underwriting expense ratio of 31.9% for the first quarter of 2008 was 1.9 points higher than the first quarter 2007 underwriting expense ratio of 30.0%. The implementation of the new fixed compensation program for agents described above provided a 1.4 point benefit to the expense ratio in the first quarter of 2007. The remaining increase reflected continued investments to support business growth and product development.

RESULTS OF OPERATIONS BY SEGMENT

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

Business Insurance

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

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

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

(for the three months ended March 31, in millions)	**2008**	**2007**
Revenues		
Earned premiums	**$ 2,786**	$ 2,763
Net investment income	**573**	694
Fee income	**105**	120
Other revenues	**6**	4
Total revenues	**$ 3,470**	$ 3,581
Total claims and expenses	**$ 2,525**	$ 2,653
Operating income	**$ 683**	$ 678
Loss and loss adjustment expense ratio	**54.2%**	61.2%
Underwriting expense ratio	**32.4**	30.3
GAAP combined ratio	**86.6%**	91.5%

Overview

Operating income of $683 million in the first quarter of 2008 was $5 million, or 1%, higher than operating income of $678 million in the same period of 2007, primarily reflecting a significant increase in net favorable prior year reserve development, which was largely offset by a decline in net investment income, the impact of competitive market conditions on current accident year results and an increase in both catastrophe losses and large property losses. Net favorable prior year reserve development in the first quarters of 2008 and 2007 totaled $312 million and $27 million, respectively. Catastrophe losses in the first quarter of 2008 totaled $57 million, compared with no catastrophe losses in the same period of 2007. Operating income in 2007 also benefited from the Company s implementation of a new fixed agent compensation program, which is described in more detail in the Consolidated Overview section herein.

Earned Premiums

Earned premiums of $2.79 billion in the first quarter of 2008 increased $23 million, or 1%, over the same period of 2007, reflecting the growth in business volume during the prior twelve months in the majority of the markets comprising this segment, driven by strong business retention rates and new business volumes in several business units.

Net Investment Income

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

Fee Income

National Accounts is the primary source of fee income due to its service businesses, which include claim and loss prevention services to large companies that choose to self-insure a portion of their insurance risks, and claims and policy management services to workers compensation residual market pools. The $15 million decline in fee income in the first quarter of 2008 compared with the same 2007 period 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 due to workers compensation reforms, primarily in California (since fees are principally based on a percentage of losses), and lower new business volume due to increased competition.

Claims and Expenses

Claims and claim adjustment expenses in the first quarter of 2008 totaled $1.56 billion, a decrease of $183 million, or 11%, compared with the same 2007 period, primarily reflecting a significant increase in net favorable prior year reserve development, partially offset by an increase in catastrophe losses and large property losses and an increase in business volume. Net favorable prior year reserve development totaled $312 million in the first quarter of 2008, compared with net favorable prior year reserve development of $27 million in the same 2007 period. The 2008 total was driven by better than expected loss results primarily concentrated in the commercial multi-peril, general liability and property product lines for recent accident years. 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 general liability product line also benefited from an increase in anticipated ceded recoveries for older accident years. The property product line improvement occurred primarily in the 2007 accident year as a result of favorable trends in certain large inland marine claim exposures and the recognition of higher than anticipated ceded recoveries for commercial property large claims. In addition, the property product line s 2005 accident year results experienced improvement due to the litigation environment relating to, and ongoing claim settlements for, Hurricane Katrina. Catastrophe losses in the first quarter of 2008 totaled $57 million, compared with no catastrophe losses in the same 2007 period. Catastrophe losses in 2008 primarily resulted from several tornadoes and hail storms.

The amortization of deferred acquisition costs totaled $451 million in the first quarter of 2008, 12% higher than the comparable 2007 total of $403 million, primarily reflecting the impact of the Company s implementation of a new fixed agent compensation program, as well as the impact of growth in business volume. As described in more detail in the Consolidated Overview section herein, the Company implemented a new fixed agent compensation program in the first quarter of 2007, which resulted in a net $37 million pretax benefit to income in the first quarter of 2007 in the Business Insurance segment due to a change in the timing of expense recognition.

General and administrative expenses in the first quarter of 2008 totaled $516 million, slightly higher than the comparable total of $509 million in the same period of 2007, reflecting continued investments to support business growth and product development.

GAAP Combined Ratio

The loss and loss adjustment expense ratio in the first quarter of 2008 of 54.2% was 7.0 points lower than the comparable 2007 ratio of 61.2%. Net favorable prior year reserve development in 2008 provided an 11.2 point benefit to the loss and loss adjustment expense ratio, whereas net favorable prior year reserve development in 2007 accounted for a 0.9 point benefit to the loss and loss adjustment expense ratio. Catastrophe losses in the first quarter of 2008 accounted for 2.1 points of the loss and loss adjustment expense ratio. The 2008 first quarter loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development was 1.2 points higher than the 2007 ratio on the same basis, reflecting large property losses and the impact of competitive market conditions on current accident year loss experience. The underwriting expense ratio of 32.4% for the first quarter of 2008 was 2.1 points higher than the comparable 2007 ratio. The 2007 ratio included a 1.3 point benefit from the implementation of the new fixed agent compensation program described above. The remaining increase reflected continued investments to support business growth and product development.

Written Premiums

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

	Gross Written Premiums	
(for the three months ended March 31, in millions)	**2008**	**2007**
Select Accounts	**$ 720**	$ 717
Commercial Accounts	**732**	713
National Accounts	**445**	513
Industry-Focused Underwriting	**662**	633
Target Risk Underwriting	**522**	526
Specialized Distribution	**245**	255
Total Business Insurance Core	**3,326**	3,357
Business Insurance Other	**(18)**	30
Total Business Insurance	**$ 3,308**	$ 3,387

	Net Written Premiums	
(for the three months ended March 31, in millions)	**2008**	**2007**
Select Accounts	**$ 708**	$ 701
Commercial Accounts	**673**	641
National Accounts	**246**	255
Industry-Focused Underwriting	**613**	582
Target Risk Underwriting	**423**	417
Specialized Distribution	**244**	252
Total Business Insurance Core	**2,907**	