TRAVELERS COMPANIES, INC.
Form 10-Q
October 20, 2015
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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 September 30, 2015

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

485 Lexington Avenue

New York, NY 10017

(Address of principal executive offices) (Zip Code)

(917) 778-6000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer (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 October 16, 2015 was 304,218,796.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended September 30, 2015

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PART 1 FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

(in millions, except per share amounts)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenues				
Premiums	**$ 6,032**	$ 5,983	**$ 17,851**	$ 17,734
Net investment income	**614**	719	**1,838**	2,150
Fee income	**112**	110	**334**	329
Net realized investment gains (1)	**15**	40	**35**	57
Other revenues	**21**	34	**68**	109
Total revenues	**6,794**	6,886	**20,126**	20,379
Claims and expenses				
Claims and claim adjustment expenses	**3,382**	3,520	**10,360**	10,661
Amortization of deferred acquisition costs	**987**	984	**2,913**	2,899
General and administrative expenses	**1,024**	1,031	**3,044**	2,913
Interest expense	**94**	93	**278**	277
Total claims and expenses	**5,487**	5,628	**16,595**	16,750
Income before income taxes	**1,307**	1,258	**3,531**	3,629
Income tax expense	**379**	339	**958**	975
Net income	**$ 928**	$ 919	**$ 2,573**	$ 2,654
Net income per share				
Basic	**$ 3.00**	$ 2.72	**$ 8.13**	$ 7.68
Diluted	**$ 2.97**	$ 2.69	**$ 8.04**	$ 7.60
Weighted average number of common shares outstanding				
Basic	**307.6**	335.1	**314.3**	342.9
Diluted	**311.0**	338.9	**317.7**	346.5
Cash dividends declared per common share	**$ 0.61**	$ 0.55	**$ 1.77**	$ 1.60

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(1) Total other-than-temporary impairment (OTTI) losses were $(14) million and $(8) million for the three months ended September 30, 2015 and 2014, respectively, and $(26) million and $(16) million for the nine months ended September 30, 2015 and 2014, respectively. Of total OTTI, credit losses of $(14) million and $(10) million for the

three months ended September 30, 2015 and 2014, respectively, and $(23) million and $(20) million for the nine months ended September 30, 2015 and 2014, respectively, were recognized in net realized investment gains. In addition, unrealized gains (losses) from other changes in total OTTI of $0 million and $2 million for the three months ended September 30, 2015 and 2014, respectively, and $(3) million and $4 million for the nine months ended September 30, 2015 and 2014, respectively, were recognized in other comprehensive income (loss) as part of changes in net unrealized gains on investment securities having credit losses recognized in the consolidated statement of income.

The accompanying notes are an integral part of the consolidated financial statements.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(in millions)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	**$ 928**	$ 919	**$ 2,573**	$ 2,654
Other comprehensive income (loss):				
Changes in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	**67**	(154)	**(829)**	901
Having credit losses recognized in the consolidated statement of income	**(3)**	1	**(13)**	4
Net changes in benefit plan assets and obligations	**24**	15	**71**	45
Net changes in unrealized foreign currency translation	**(227)**	(203)	**(407)**	(149)
Other comprehensive income (loss) before income taxes	**(139)**	(341)	**(1,178)**	801
Income tax expense (benefit)	**(2)**	(79)	**(330)**	311
Other comprehensive income (loss), net of taxes	**(137)**	(262)	**(848)**	490
Comprehensive income	**$ 791**	$ 657	**$ 1,725**	$ 3,144

The accompanying notes are an integral part of the consolidated financial statements.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Fixed maturities, available for sale, at fair value (amortized cost $59,688 and $60,801)	**$ 61,671**	$ 63,474
Equity securities, available for sale, at fair value (cost $553 and $579)	**719**	899
Real estate investments	**1,011**	938
Short-term securities	**5,128**	4,364
Other investments	**3,530**	3,586
Total investments	**72,059**	73,261
Cash	**344**	374
Investment income accrued	**613**	685
Premiums receivable	**6,559**	6,298
Reinsurance recoverables	**8,949**	9,260
Ceded unearned premiums	**789**	678
Deferred acquisition costs	**1,904**	1,835
Deferred taxes	**241**	33
Contractholder receivables	**4,390**	4,362
Goodwill	**3,579**	3,611
Other intangible assets	**280**	304
Other assets	**2,403**	2,377
Total assets	**$ 102,110**	$ 103,078
Liabilities		
Claims and claim adjustment expense reserves	**$ 48,596**	$ 49,850
Unearned premium reserves	**12,284**	11,839
Contractholder payables	**4,390**	4,362
Payables for reinsurance premiums	**439**	336
Debt	**6,743**	6,349
Other liabilities	**5,625**	5,506
Total liabilities	**78,077**	78,242
Shareholders equity		
Common stock (1,750.0 shares authorized; 304.2 and 322.2 shares issued and outstanding)	**22,099**	21,843
Retained earnings	**29,263**	27,251
Accumulated other comprehensive income	**32**	880
Treasury stock, at cost (458.8 and 437.3 shares)	**(27,361)**	(25,138)
Total shareholders equity	**24,033**	24,836
Total liabilities and shareholders equity	**$ 102,110**	$ 103,078

The accompanying notes are an integral part of the consolidated financial statements.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the nine months ended September 30,	2015	2014
Common stock		
Balance, beginning of year	**$ 21,843**	$ 21,500
Employee share-based compensation	**105**	120
Compensation amortization under share-based plans and other changes	**151**	144
Balance, end of period	**22,099**	21,764
Retained earnings		
Balance, beginning of year	**27,251**	24,291
Net income	**2,573**	2,654
Dividends	**(561)**	(553)
Other		2
Balance, end of period	**29,263**	26,394
Accumulated other comprehensive income, net of tax		
Balance, beginning of year	**880**	810
Other comprehensive income (loss)	**(848)**	490
Balance, end of period	**32**	1,300
Treasury stock, at cost		
Balance, beginning of year	**(25,138)**	(21,805)
Treasury stock acquired share repurchase authorization	**(2,150)**	(2,275)
Net shares acquired related to employee share-based compensation plans	**(73)**	(57)
Balance, end of period	**(27,361)**	(24,137)
Total shareholders equity	**$ 24,033**	$ 25,321
Common shares outstanding		
Balance, beginning of year	**322.2**	353.5
Treasury stock acquired share repurchase authorization	**(20.8)**	(25.4)
Net shares issued under employee share-based compensation plans	**2.8**	3.3
Balance, end of period	**304.2**	331.4

The accompanying notes are an integral part of the consolidated financial statements.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

For the nine months ended September 30,	2015	2014
Cash flows from operating activities		
Net income	**$ 2,573**	$ 2,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	**(35)**	(57)
Depreciation and amortization	**620**	653
Deferred federal income tax expense	**105**	93
Amortization of deferred acquisition costs	**2,913**	2,899
Equity in income from other investments	**(214)**	(412)
Premiums receivable	**(300)**	(334)
Reinsurance recoverables	**247**	403
Deferred acquisition costs	**(2,998)**	(2,993)
Claims and claim adjustment expense reserves	**(874)**	(298)
Unearned premium reserves	**542**	379
Other	**95**	181
Net cash provided by operating activities	**2,674**	3,168
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**8,805**	7,975
Proceeds from sales of investments:		
Fixed maturities	**1,555**	927
Equity securities	**38**	128
Real estate investments	**15**	5
Other investments	**505**	612
Purchases of investments:		
Fixed maturities	**(9,972)**	(8,237)
Equity securities	**(31)**	(47)
Real estate investments	**(116)**	(41)
Other investments	**(389)**	(406)
Net purchases of short-term securities	**(782)**	(1,163)
Securities transactions in course of settlement	**103**	119
Acquisition, net of cash acquired		(12)
Other	**(222)**	(262)
Net cash used in investing activities	**(491)**	(402)
Cash flows from financing activities		
Issuance of debt	**392**	
Treasury stock acquired share repurchase authorization	**(2,150)**	(2,275)
Treasury stock acquired net employee share-based compensation	**(73)**	(56)
Dividends paid to shareholders	**(557)**	(549)
Issuance of common stock employee share options	**142**	154
Excess tax benefits from share-based payment arrangements	**42**	38
Net cash used in financing activities	**(2,204)**	(2,688)
Effect of exchange rate changes on cash	**(9)**	(5)
Net increase (decrease) in cash	**(30)**	73
Cash at beginning of year	**374**	294
Cash at end of period	**$ 344**	$ 367

Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**882**	$	785
Interest paid	**$**	**217**	$	217

The accompanying notes are an integral part of the consolidated financial statements.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company s management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. 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 Annual Report on Form 10-K for the year ended December 31, 2014 (the Company s 2014 Annual Report).

The preparation of the interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and claims and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

Adoption of Accounting Standards Updates

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board (FASB) issued revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity) and that have a major effect on a reporting entity s operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance was effective for the quarter ending March 31, 2015. The adoption of this guidance did not have any effect on the Company s results of operations, financial position or liquidity.

Accounting Standards Not Yet Adopted

Amendments to the Consolidation Analysis

In February 2015, the FASB issued updated guidance that makes targeted amendments to the current consolidation accounting guidance. The update is in response to accounting complexity concerns, particularly from the asset management industry. The guidance simplifies consolidation accounting by reducing the number of approaches to consolidation, provides a scope exception to registered money market funds and similar unregistered money market funds and ends the indefinite deferral granted to investment companies from applying the variable interest entity guidance.

The updated guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance is not expected to have a material effect on the Company s results of operations, financial position or liquidity.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The updated guidance is consistent with the Company s accounting policy and its adoption will not have any effect on the Company s results of operations, financial position or liquidity.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued updated guidance regarding business combinations that requires an acquirer to recognize post-close measurement adjustments for provisional amounts in the period the adjustment amounts are determined rather than retrospectively. The acquirer is also required to recognize, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the provisional amount, calculated as if the accounting had been completed at the acquisition date. The updated guidance is to be applied prospectively effective for annual and interim periods beginning after December 15, 2015. In connection with business combinations which have already been completed, the adoption of this guidance is not expected to have a material effect on the Company s results of operations, financial position or liquidity.

Additional Accounting Standards Not Yet Adopted

Revenue from Contracts with Customers

In July 2015, the FASB deferred the effective date of the updated guidance on revenue recognition by one year to the quarter ending March 31, 2018. The adoption of this guidance is not expected to have a material effect on the Company s results of operations, financial position or liquidity.

For additional information regarding *Revenue from Contracts with Customers* and other accounting standards that the Company has not yet adopted, see the Accounting Standards Not Yet Adopted section of note 1 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

Nature of Operations

The Company is organized into three reportable business segments: Business and International Insurance; Bond & Specialty 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. For more information regarding the Company s nature of operations, see the Nature of Operations section of note 1 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION

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

(for the three months ended September 30, in millions)	Business and International Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2015				
Premiums	**$ 3,653**	**$ 539**	**$ 1,840**	**$ 6,032**
Net investment income	**471**	**56**	**87**	**614**
Fee income	**112**			**112**
Other revenues	**5**	**4**	**9**	**18**
Total operating revenues (1)	**$ 4,241**	**$ 599**	**$ 1,936**	**$ 6,776**
Operating income (1)	**$ 546**	**$ 196**	**$ 241**	**$ 983**
2014				
Premiums	$ 3,660	$ 527	$ 1,796	$ 5,983
Net investment income	557	64	98	719
Fee income	110			110
Other revenues	10	5	19	34
Total operating revenues (1)	$ 4,337	$ 596	$ 1,913	$ 6,846
Operating income (1)	$ 552	$ 165	$ 239	$ 956

(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).

(for the nine months ended September 30, in millions)	Business and International Insurance	Bond & Specialty Insurance	Personal Insurance	Total Reportable Segments
2015				
Premiums	**$ 10,882**	**$ 1,567**	**$ 5,402**	**$ 17,851**
Net investment income	**1,412**	**169**	**257**	**1,838**
Fee income	**334**			**334**
Other revenues	**18**	**14**	**33**	**65**
Total operating revenues (1)	**$ 12,646**	**$ 1,750**	**$ 5,692**	**$ 20,088**
Operating income (1)	**$ 1,604**	**$ 471**	**$ 667**	**$ 2,742**

2014								
Premiums	$	10,849	$	1,554	$	5,331	$	17,734
Net investment income		1,666		192		292		2,150
Fee income		329						329
Other revenues		32		15		62		109
Total operating revenues (1)	$	12,876	$	1,761	$	5,685	$	20,322
Operating income (1)	$	1,717	$	511	$	582	$	2,810

(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).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenue reconciliation				
Earned premiums				
Business and International Insurance:				
Domestic:				
Workers compensation	**$ 970**	$ 928	**$ 2,889**	$ 2,759
Commercial automobile	**486**	481	**1,432**	1,422
Commercial property	**446**	442	**1,329**	1,310
General liability	**487**	472	**1,432**	1,376
Commercial multi-peril	**790**	774	**2,344**	2,292
Other	**10**	10	**30**	31
Total Domestic	**3,189**	3,107	**9,456**	9,190
International	**464**	553	**1,426**	1,659
Total Business and International Insurance	**3,653**	3,660	**10,882**	10,849
Bond & Specialty Insurance:				
Fidelity and surety	**254**	240	**719**	700
General liability	**240**	243	**716**	721
Other	**45**	44	**132**	133
Total Bond & Specialty Insurance	**539**	527	**1,567**	1,554
Personal Insurance:				
Automobile	**893**	835	**2,592**	2,471
Homeowners and other	**947**	961	**2,810**	2,860
Total Personal Insurance	**1,840**	1,796	**5,402**	5,331
Total earned premiums	**6,032**	5,983	**17,851**	17,734
Net investment income	**614**	719	**1,838**	2,150
Fee income	**112**	110	**334**	329
Other revenues	**18**	34	**65**	109
Total operating revenues for reportable segments	**6,776**	6,846	**20,088**	20,322
Other revenues	**3**		**3**	
Net realized investment gains	**15**	40	**35**	57
Total consolidated revenues	**$ 6,794**	$ 6,886	**$ 20,126**	$ 20,379
Income reconciliation, net of tax				
Total operating income for reportable segments	**$ 983**	$ 956	**$ 2,742**	$ 2,810
Interest Expense and Other (1)	**(65)**	(63)	**(191)**	(192)

Total operating income		**918**		893		**2,551**		2,618
Net realized investment gains		**10**		26		**22**		36
Total consolidated net income	**$**	**928**	$	919	**$**	**2,573**	$	2,654

(1) The primary component of Interest Expense and Other was after-tax interest expense of $61 million and $60 million in the three months ended September 30, 2015 and 2014, respectively, and $181 million and $180 million in the nine months ended September 30, 2015 and 2014, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)		September 30, 2015		December 31, 2014
Asset reconciliation:				
Business and International Insurance	**$**	**80,905**	$	82,309
Bond & Specialty Insurance		**7,828**		7,525
Personal Insurance		**12,946**		12,798
Total assets for reportable segments		**101,679**		102,632
Other assets (1)		**431**		446
Total consolidated assets	**$**	**102,110**	$	103,078

(1) The primary components of other assets at September 30, 2015 and December 31, 2014 were other intangible assets and deferred taxes.

3. INVESTMENTS

Fixed Maturities

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

(at September 30, 2015, in millions)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	**$**	**2,324**	**$**	**24**	**$**	**3**	**$**	**2,345**
Obligations of states, municipalities and political subdivisions:								
Pre-refunded		**6,287**		**302**				**6,589**
All other		**24,075**		**1,009**		**46**		**25,038**
Total obligations of states, municipalities and political subdivisions		**30,362**		**1,311**		**46**		**31,627**
Debt securities issued by foreign governments		**1,939**		**50**				**1,989**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		**1,874**		**142**		**3**		**2,013**

All other corporate bonds	**23,082**	**687**	**187**	**23,582**
Redeemable preferred stock	**107**	**8**		**115**
Total	**$ 59,688**	**$ 2,222**	**$ 239**	**$ 61,671**

(at December 31, 2014, in millions)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,022	$ 36	$ 5	$ 2,053
Obligations of states, municipalities and political subdivisions:				
Pre-refunded	7,229	332		7,561
All other	24,666	1,356	10	26,012
Total obligations of states, municipalities and political subdivisions	31,895	1,688	10	33,573
Debt securities issued by foreign governments	2,320	48		2,368
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,052	165	4	2,213
All other corporate bonds	22,390	844	99	23,135
Redeemable preferred stock	122	10		132
Total	$ 60,801	$ 2,791	$ 118	$ 63,474

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Pre-refunded bonds of $6.59 billion and $7.56 billion at September 30, 2015 and December 31, 2014, respectively, were bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities, which were created to satisfy their responsibility for payments of principal and interest.

Proceeds from sales of fixed maturities classified as available for sale were $1.56 billion and $927 million during the nine months ended September 30, 2015 and 2014, respectively. Gross gains of $74 million and $34 million and gross losses of $6 million and $6 million were realized on those sales during the nine months ended September 30, 2015 and 2014, respectively.

Equity Securities

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

		Gross Unrealized		Fair
(at September 30, 2015, in millions)	**Cost**	**Gains**	**Losses**	**Value**
Public common stock	**$ 398**	**$ 164**	**$ 18**	**$ 544**
Non-redeemable preferred stock	**155**	**27**	**7**	**175**
Total	**$ 553**	**$ 191**	**$ 25**	**$ 719**

		Gross Unrealized		Fair
(at December 31, 2014, in millions)	**Cost**	**Gains**	**Losses**	**Value**
Public common stock	$ 400	$ 295	$ 4	$ 691
Non-redeemable preferred stock	179	31	2	208
Total	$ 579	$ 326	$ 6	$ 899

Proceeds from sales of equity securities were $38 million and $128 million during the nine months ended September 30, 2015 and 2014, respectively. Gross gains of $7 million and $20 million and gross losses of $4 million and $3 million were realized on those sales during the nine months ended September 30, 2015 and 2014, respectively.

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at September 30, 2015 and December 31, 2014, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in the tables are estimates that are prepared using the process described in note 4 herein and in note 4 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at September 30, 2015, 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	**$ 499**	**$ 2**	**$ 25**	**$ 1**	**$ 524**	**$ 3**
Obligations of states, municipalities and political subdivisions	**3,604**	**41**	**142**	**5**	**3,746**	**46**
Debt securities issued by foreign governments	**112**				**112**	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**89**	**1**	**62**	**2**	**151**	**3**
All other corporate bonds	**5,322**	**130**	**696**	**57**	**6,018**	**187**
Redeemable preferred stock	**8**				**8**	
Total fixed maturities	**9,634**	**174**	**925**	**65**	**10,559**	**239**
Equity securities						
Public common stock	**75**	**18**	**34**		**109**	**18**
Non-redeemable preferred stock	**52**	**5**	**46**	**2**	**98**	**7**
Total equity securities	**127**	**23**	**80**	**2**	**207**	**25**
Total	**$ 9,761**	**$ 197**	**$ 1,005**	**$ 67**	**$ 10,766**	**$ 264**

(at December 31, 2014, 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	$ 180	$ 2	$ 125	$ 3	$ 305	$ 5
Obligations of states, municipalities and political subdivisions	173	1	797	9	970	10
Debt securities issued by foreign governments	50		24		74	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	68		192	4	260	4
All other corporate bonds	2,148	38	2,355	61	4,503	99
Total fixed maturities	2,619	41	3,493	77	6,112	118
Equity securities						
Public common stock	81	4	1		82	4
Non-redeemable preferred stock	44	1	42	1	86	2
Total equity securities	125	5	43	1	168	6
Total	$ 2,744	$ 46	$ 3,536	$ 78	$ 6,280	$ 124

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Unrealized losses for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at September 30, 2015 totaled $52 million, representing less than 1% of the combined fixed maturity and equity security portfolios on a pretax basis and less than 1% of shareholders equity on an after-tax basis.

Impairment Charges

Impairment charges included in net realized investment gains in the consolidated statement of income were $14 million and $10 million for the three months ended September 30, 2015 and 2014, respectively, and $23 million and $20 million for the nine months ended September 30, 2015 and 2014, respectively.

The cumulative credit component of other-than-temporary impairments (OTTI) on fixed maturities recognized in the consolidated statement of income for which a portion of the OTTI was recognized in other comprehensive income for fixed maturities held at September 30, 2015 and 2014 totaled $86 million and $105 million, respectively, representing less than 1% of the fixed maturity portfolio on a pretax basis and less than 1% of shareholders equity on an after-tax basis at both dates. There were no significant changes in the credit component of OTTI during the three months and nine months ended September 30, 2015 and 2014 from that disclosed in note 3 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

Derivative Financial Instruments

From time to time, the Company enters into U.S. Treasury note futures contracts to modify the effective duration of specific assets within the investment portfolio. U.S. Treasury futures contracts require a daily mark-to-market and settlement with the broker. At September 30, 2015 and December 31, 2014, the Company had $450 million and $350 million notional value of open U.S. Treasury futures contracts, respectively. Net realized investment gains (losses) in the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014 related to U.S. Treasury futures contracts were not significant.

4. FAIR VALUE MEASUREMENTS

The Company s estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company s significant market assumptions. The level in the fair value hierarchy within which the fair value measurement is reported is based on the lowest level input that is significant to the measurement in its entirety. The three levels of the hierarchy are as follows:

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

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Valuation of Investments Reported at Fair Value in Financial Statements

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both September 30, 2015 and December 31, 2014.

While the vast majority of the Company s fixed maturities are included in Level 2, the Company holds a number of municipal bonds and corporate 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. The fair value of the fixed maturities for which the Company used an internal pricing matrix was $177 million and $92 million at September 30, 2015 and December 31, 2014, respectively. Additionally, the Company holds a small amount of other fixed maturity investments that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker (primarily the market maker). The fair value of the fixed maturities for which the Company received a broker quote was $93 million and $140 million at September 30, 2015 and December 31, 2014, respectively. 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.

For more information regarding the valuation of the Company s fixed maturities, equity securities and other investments, see note 4 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company s financial assets and financial liabilities are measured on a recurring basis at September 30, 2015 and December 31, 2014. An investment transferred between levels during a period is transferred at its fair value as of the beginning of that period.

(at September 30, 2015, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				

U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,345	$ 2,345	$	$
Obligations of states, municipalities and political subdivisions	31,627	25	31,588	14
Debt securities issued by foreign governments	1,989		1,989	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,013		1,979	34
All other corporate bonds	23,582	101	23,266	215
Redeemable preferred stock	115	4	104	7
Total fixed maturities	61,671	2,475	58,926	270
Equity securities				
Public common stock	544	544		
Non-redeemable preferred stock	175	63	112	
Total equity securities	719	607	112	
Other investments	56	17		39
Total	$ 62,446	$ 3,099	$ 59,038	$ 309

During the nine months ended September 30, 2015, the Company s transfers between Level 1 and Level 2 were not significant.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

(at December 31, 2014, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,053	$ 2,049	$ 4	$
Obligations of states, municipalities and political subdivisions	33,573		33,560	13
Debt securities issued by foreign governments	2,368		2,368	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,213		2,203	10
All other corporate bonds	23,135		22,934	201
Redeemable preferred stock	132	2	122	8
Total fixed maturities	63,474	2,051	61,191	232
Equity securities				
Public common stock	691	691		
Non-redeemable preferred stock	208	82	126	
Total equity securities	899	773	126	
Other investments	55	19		36
Total	$ 64,428	$ 2,843	$ 61,317	$ 268

During the year ended December 31, 2014, the Company s transfers between Level 1 and Level 2 were not significant.

There was no significant activity in Level 3 of the hierarchy during the nine months ended September 30, 2015 or the year ended December 31, 2014.

Financial Instruments Disclosed, But Not Carried, At Fair Value

The Company uses various financial instruments in the normal course of its business. The following tables present the carrying value and fair value of the Company s financial assets and financial liabilities disclosed, but not carried, at fair value at September 30, 2015 and December 31, 2014, and the level within the fair value hierarchy at which such assets and liabilities are categorized.

(at September 30, 2015, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	**$ 5,128**	**$ 5,128**	**$ 1,943**	**$ 3,148**	**$ 37**
Financial liabilities:					
Debt	**$ 6,643**	**$ 7,623**	**$**	**$ 7,623**	**$**
Commercial paper	**$ 100**	**$ 100**	**$**	**$ 100**	**$**

(at December 31, 2014, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	$ 4,364	$ 4,364	$ 1,283	$ 3,042	$ 39
Financial liabilities:					
Debt	$ 6,249	$ 7,522	$	$ 7,522	$
Commercial paper	$ 100	$ 100	$	$ 100	$

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

The Company utilized a pricing service to estimate fair value for approximately 98% of short-term securities at both September 30, 2015 and December 31, 2014. For a description of the process and inputs used by the pricing service to estimate fair value, see the Fixed Maturities section in note 4 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

The Company utilized a pricing service to estimate fair value for 100% of its debt, including commercial paper, at September 30, 2015 and December 31, 2014.

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the nine months ended September 30, 2015 or twelve months ended December 31, 2014.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company s goodwill by segment at September 30, 2015 and December 31, 2014:

(in millions)	September 30, 2015	December 31, 2014
Business and International Insurance (1)	**$ 2,443**	$ 2,476
Bond & Specialty Insurance	**496**	495
Personal Insurance	**612**	613
Other	**28**	27
Total	**$ 3,579**	$ 3,611

(1) Includes goodwill associated with the Company s international business which is subject to the impact of changes in foreign currency exchange rates.

Other Intangible Assets

The following tables present a summary of the Company s other intangible assets by major asset class at September 30, 2015 and December 31, 2014:

(at September 30, 2015, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related (1)	$ 4	$ 4	$
Fair value adjustment on claims and claim adjustment expense reserves, reinsurance recoverables and other contract-related intangibles (2)	208	145	63
Total intangible assets subject to amortization	212	149	63
Intangible assets not subject to amortization	217		217
Total other intangible assets	$ 429	$ 149	$ 280

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

(at December 31, 2014, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	$ 460	$ 446	$ 14
Fair value adjustment on claims and claim adjustment expense reserves, reinsurance recoverables and other contract-related intangibles (2)	209	136	73
Total intangible assets subject to amortization	669	582	87
Intangible assets not subject to amortization	217		217
Total other intangible assets	$ 886	$ 582	$ 304

(1) Certain customer-related intangible assets became fully amortized during the second quarter of 2015.

(2) The time value of money and the risk adjustment (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 other intangible assets by major asset class:

(in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Customer-related	**$**	$ 8	**$ 14**	$ 24
Fair value adjustment on claims and claim adjustment expense reserves, reinsurance recoverables and other contract-related intangibles	**3**	4	**9**	11
Total amortization expense	**$ 3**	$ 12	**$ 23**	$ 35

Intangible asset amortization expense is estimated to be $3 million for the remainder of 2015, $10 million in 2016, $9 million in 2017, $7 million in 2018 and $6 million in 2019.

6. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in the Company s accumulated other comprehensive income (AOCI) for the nine months ended September 30, 2015.

(in millions)	Changes in Net Unrealized Gains on Investment Securities Having No Credit Losses Recognized in the Consolidated Statement of Income	Changes in Net Unrealized Gains on Investment Securities Having Credit Losses Recognized in the Consolidated Statement of Income	Net Benefit Plan Assets and Obligations Recognized in Shareholders Equity	Net Unrealized Foreign Currency Translation	Total Accumulated Other Comprehensive Income
Balance, December 31, 2014	**$ 1,768**	**$ 198**	**$ (755)**	**$ (331)**	**$ 880**
Other comprehensive income (loss) (OCI) before reclassifications	**(507)**	**(11)**	**1**	**(342)**	**(859)**
Amounts reclassified from AOCI	**(36)**	**2**	**45**		**11**
Net OCI, current period	**(543)**	**(9)**	**46**	**(342)**	**(848)**
Balance, September 30, 2015	**$ 1,225**	**$ 189**	**$ (709)**	**$ (673)**	**$ 32**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME, Continued

The following tables present the pretax components of the Company s other comprehensive income (loss) and the related income tax expense (benefit) for the three months and nine months ended September 30, 2015 and 2014.

(for the three months ended September 30, in millions)	**2015**	**2014**
Changes in net unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income	**$ 67**	$ (154)
Income tax expense (benefit)	**26**	(55)
Net of taxes	**41**	(99)
Having credit losses recognized in the consolidated statement of income	**(3)**	1
Income tax expense (benefit)		1
Net of taxes	**(3)**	
Net changes in benefit plan assets and obligations	**24**	15
Income tax expense	**9**	5
Net of taxes	**15**	10
Net changes in unrealized foreign currency translation	**(227)**	(203)
Income tax benefit	**(37)**	(30)
Net of taxes	**(190)**	(173)
Total other comprehensive loss	**(139)**	(341)
Total income tax benefit	**(2)**	(79)
Total other comprehensive loss, net of taxes	**$ (137)**	$ (262)

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME, Continued

(for the nine months ended September 30, in millions)	2015	2014
Changes in net unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income	**$ (829)**	$ 901
Income tax expense (benefit)	**(286)**	311
Net of taxes	**(543)**	590
Having credit losses recognized in the consolidated statement of income	**(13)**	4
Income tax expense (benefit)	**(4)**	2
Net of taxes	**(9)**	2
Net changes in benefit plan assets and obligations	**71**	45
Income tax expense	**25**	17
Net of taxes	**46**	28
Net changes in unrealized foreign currency translation	**(407)**	(149)
Income tax benefit	**(65)**	(19)
Net of taxes	**(342)**	(130)
Total other comprehensive income (loss)	**(1,178)**	801
Total income tax expense (benefit)	**(330)**	311
Total other comprehensive income (loss), net of taxes	**$ (848)**	$ 490

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME, Continued

The following tables present the pretax and related income tax (expense) benefit components of the amounts reclassified from the Company s AOCI to the Company s consolidated statement of income for the three months and nine months ended September 30, 2015 and 2014.

(for the three months ended September 30, in millions)	2015	2014
Reclassification adjustments related to unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income (1)	**$ (20)**	$ (1)
Income tax expense (2)	**(7)**	
Net of taxes	**(13)**	(1)
Having credit losses recognized in the consolidated statement of income (1)		
Income tax benefit (2)		
Net of taxes		
Reclassification adjustment related to benefit plan assets and obligations (3)	**23**	15
Income tax benefit (2)	**8**	5
Net of taxes	**15**	10
Reclassification adjustment related to foreign currency translation (1)		
Income tax benefit (2)		
Net of taxes		
Total reclassifications	**3**	14
Total income tax benefit	**1**	5
Total reclassifications, net of taxes	**$ 2**	$ 9

(1) (Increases) decreases net realized investment gains on the consolidated statement of income.

(2) (Increases) decreases income tax expense on the consolidated statement of income.

(3) Increases (decreases) general and administrative expenses on the consolidated statement of income.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME, Continued

(for the nine months ended September 30, in millions)	2015	2014
Reclassification adjustments related to unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income (1)	**$ (55)**	$ (30)
Income tax expense (2)	**(19)**	(10)
Net of taxes	**(36)**	(20)
Having credit losses recognized in the consolidated statement of income (1)	**2**	4
Income tax benefit (2)		2
Net of taxes	**2**	2
Reclassification adjustment related to benefit plan assets and obligations (3)	**70**	45
Income tax benefit (2)	**25**	17
Net of taxes	**45**	28
Reclassification adjustment related to foreign currency translation (1)		
Income tax benefit (2)		
Net of taxes		
Total reclassifications	**17**	19
Total income tax benefit	**6**	9
Total reclassifications, net of taxes	**$ 11**	$ 10

(1) (Increases) decreases net realized investment gains on the consolidated statement of income.

(2) (Increases) decreases income tax expense on the consolidated statement of income.

(3) Increases (decreases) general and administrative expenses on the consolidated statement of income.

7. DEBT

On August 25, 2015, the Company issued $400 million aggregate principal amount of 4.30% senior notes that will mature on August 25, 2045. The net proceeds of the issuance, after original issuance discount and the deduction of underwriting expenses and commissions and other expenses, totaled approximately $392 million. Interest on the senior notes is payable semi-annually in arrears on February 25 and August 25, commencing on February 25, 2016. Prior to February 25, 2045, the senior notes may be redeemed, in whole or in part, at the Company s option, at any time or from time to time, at a redemption price equal to the greater of (a) 100% of the principal amount of any senior notes to be redeemed or (b) the sum of the present values of the remaining scheduled payments of principal and interest on any senior notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current rate of a treasury security having a maturity comparable to the remaining term of these senior notes, plus 25 basis points. On or after February 25, 2045, the senior notes may be redeemed, in whole or in part, at the Company s option, at any time or from time to time, at a redemption price equal to 100% of the principal amount of any senior notes to be redeemed.

8. COMMON SHARE REPURCHASES

During the three months and nine months ended September 30, 2015, the Company repurchased 7.3 million and 20.8 million shares, respectively, under its share repurchase authorization, for a total cost of $750 million and $2.15 billion, respectively. The average cost per share repurchased was $102.81 and $103.48, respectively. At September 30, 2015, the Company had $4.33 billion of capacity remaining under its share repurchase authorization. In addition, the Company acquired 5,768 and 0.7 million shares for a total cost of $0.6 million and $73 million during the three months and nine months ended September 30, 2015, respectively, that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock awards and shares used by employees to cover the exercise price of certain stock options that were exercised.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

9. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	**2015**	**2014**	**2015**	**2014**
Basic and Diluted				
Net income, as reported	**$ 928**	$ 919	**$ 2,573**	$ 2,654
Participating share-based awards allocated income	**(6)**	(7)	**(18)**	(19)
Net income available to common shareholders basic and diluted	**$ 922**	$ 912	**$ 2,555**	$ 2,635
Common Shares				
Basic				
Weighted average shares outstanding	**307.6**	335.1	**314.3**	342.9
Diluted				
Weighted average shares outstanding	**307.6**	335.1	**314.3**	342.9
Weighted average effects of dilutive securities stock options and performance shares	**3.4**	3.8	**3.4**	3.6
Total	**311.0**	338.9	**317.7**	346.5
Net Income per Common Share				
Basic	**$ 3.00**	$ 2.72	**$ 8.13**	$ 7.68
Diluted	**$ 2.97**	$ 2.69	**$ 8.04**	$ 7.60

10. SHARE-BASED INCENTIVE COMPENSATION

The following information relates to fully vested stock option awards at September 30, 2015:

Stock Options	**Number**	**Weighted Average Exercise Price**	**Weighted Average Contractual Life**	**Aggregate Intrinsic Value ($ in millions)**

			Remaining	
Vested at end of period (1)	**7,684,929**	**$ 67.85**	**6.1 years**	**$ 251**
Exercisable at end of period	**4,625,049**	**$ 53.53**	**4.6 years**	**$ 213**

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

The total compensation cost for all share-based incentive compensation awards recognized in earnings was $31 million for each of the three months ended September 30, 2015 and 2014, and $109 million and $106 million for the nine months ended September 30, 2015 and 2014, respectively. The related tax benefits recognized in the consolidated statement of income were $11 million and $10 million for the three months ended September 30, 2015 and 2014, respectively, and $37 million and $36 million for the nine months ended September 30, 2015 and 2014, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at September 30, 2015 was $152 million, which is expected to be recognized over a weighted-average period of 1.8 years. The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at December 31, 2014 was $123 million, which was expected to be recognized over a weighted-average period of 1.7 years.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

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

(for the three months ended September 30, in millions)	Pension Plans 2015	Pension Plans 2014	Postretirement Benefit Plans 2015	Postretirement Benefit Plans 2014
Net Periodic Benefit Cost:				
Service cost	**$ 33**	$ 27	**$**	$
Interest cost on benefit obligation	**36**	38	**3**	3
Expected return on plan assets	**(58)**	(55)		
Amortization of unrecognized:				
Prior service benefit			**(1)**	(1)
Net actuarial (gain) loss	**24**	17		(1)
Net periodic benefit cost	**$ 35**	$ 27	**$ 2**	$ 1

(for the nine months ended September 30, in millions)	Pension Plans 2015	Pension Plans 2014	Postretirement Benefit Plans 2015	Postretirement Benefit Plans 2014
Net Periodic Benefit Cost:				
Service cost	**$ 98**	$ 82	**$**	$
Interest cost on benefit obligation	**108**	113	**8**	8
Expected return on plan assets	**(173)**	(164)		
Amortization of unrecognized:				
Prior service benefit			**(2)**	(2)
Net actuarial (gain) loss	**72**	49		(2)
Net periodic benefit cost	**$ 105**	$ 80	**$ 6**	$ 4

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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 properties is subject are described below.

Asbestos and Environmental Claims and Litigation

In the ordinary course of its insurance business, the Company has received and continues to receive 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. The Company is defending 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. 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 Company s current 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.

Settlement of Asbestos Direct Action Litigation

In January 2015, pursuant to an order issued by the federal bankruptcy court, the Company made a payment in the amount of $579 million for the settlement of litigation that had commenced in 2001 related to the handling and settlement of

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

asbestos claims. The payment was fully accrued in the Company s financial statements at December 31, 2014 and was comprised of the $502 million settlement amounts, plus pre- and post-judgment interest totaling $77 million. For further information related to this litigation, see Settlement of Asbestos Direct Action Litigation in note 16 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

Other Proceedings Not Arising Under Insurance Contracts or Reinsurance Agreements

The Company is involved in other lawsuits, including lawsuits alleging extra-contractual damages relating to insurance contracts or reinsurance agreements, that do not arise under insurance contracts or reinsurance agreements. The legal costs associated with such lawsuits are expensed in the period in which the costs are incurred. Based upon currently available information, the Company does not believe it is reasonably possible that any such lawsuit or related lawsuits would be material to the Company s results of operations or would have a material adverse effect on the Company s financial position or liquidity.

Gain Contingency

On August 17, 2010, in a reinsurance dispute in New York state court captioned *United States Fidelity & Guaranty Company v. American Re-Insurance Company, et al.*, the trial court granted summary judgment for United States Fidelity and Guaranty Company (USF&G), a subsidiary of the Company, and denied summary judgment for American Re-Insurance Company, a subsidiary of Munich Re (American Re), and three other reinsurers. That summary judgment was largely affirmed on appeal, but the Court of Appeals remanded the case for trial on two discrete issues. On June 3, 2015, the trial court entered orders on pretrial motions filed by all parties in advance of the August 3, 2015 trial date and determined that the issues for trial will be limited to those remanded by the Court of Appeals. The reinsurers appealed the trial court s orders to the Appellate Division, First Department and were granted a stay of the trial date pending the outcome of their appeal. On August 12, 2015, USF&G filed a motion to dismiss the reinsurers appeal. The reinsurers appeal and USF&G s motion to dismiss the appeal were assigned to a panel of Appellate Division judges on October 8, 2015, and will be considered by that panel without oral argument. At September 30, 2015, the claim totaled $503 million, comprising the $238 million of reinsurance recoverable plus interest amounting to $265 million as of that date. Interest will continue to accrue at an annual rate of 9% until the claim is paid. The $238 million of reinsurance recoverable owed to USF&G under the terms of the disputed reinsurance contract has been reported as part of reinsurance recoverables in the Company s consolidated balance sheet. The interest that would be owed as part of any judgment ultimately entered in favor of USF&G is treated for accounting purposes as a gain contingency in accordance with FASB Topic 450, *Contingencies,* and accordingly has not been recognized in the Company s consolidated financial statements. For additional discussion of this gain contingency, see note 16 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

Other Commitments and Guarantees

Commitments

Investment Commitments The Company has unfunded commitments to private equity limited partnerships and real estate partnerships in which it invests. These commitments totaled $1.65 billion and $1.63 billion at September 30, 2015 and December 31, 2014, respectively.

Guarantees

The maximum amount of the Company s contingent obligation for indemnifications related to the sale of businesses that are quantifiable was $454 million at September 30, 2015, of which $2 million was recognized on the balance sheet at that date.

The maximum amount of the Company s obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was $150 million at September 30, 2015, approximately $75 million of which is indemnified by a third party. The maximum amount of the Company s obligation related to the guarantee of certain insurance policy obligations of a former insurance subsidiary was $480 million at September 30, 2015, all of which is indemnified by a third party.

For more information regarding Company guarantees, see note 16 of notes to the consolidated financial statements in the Company s 2014 Annual Report.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

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. (excluding its subsidiaries, TRV) has fully and unconditionally guaranteed certain debt obligations of Travelers Property Casualty Corp. (TPC), which totaled $700 million at September 30, 2015.

Prior to the merger of TPC and The St. Paul Companies, Inc. in 2004, 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). Concurrent with the merger, TRV fully and unconditionally assumed such guarantee obligations of TPC. TPC is deemed to have no assets or operations independent of TIGHI. Consolidating financial information for TIGHI has not been presented herein because such financial information would be substantially the same as the financial information provided for TPC.

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 4,110	$ 1,922	$	$	$ 6,032
Net investment income	400	213	1		614
Fee income	112				112
Net realized investment gains (1)	5	10			15
Other revenues	15	6			21
Total revenues	4,642	2,151	1		6,794
Claims and expenses					
Claims and claim adjustment expenses	2,264	1,118			3,382
Amortization of deferred acquisition costs	663	324			987
General and administrative expenses	711	309	4		1,024
Interest expense	12		82		94
Total claims and expenses	3,650	1,751	86		5,487
Income (loss) before income taxes	992	400	(85)		1,307
Income tax expense (benefit)	293	113	(27)		379
Net income of subsidiaries			986	(986)	

Net income	$	699	$	287	$	928	$	(986)	$	928

(1) Total other-than-temporary impairment (OTTI) for the three months ended September 30, 2015, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)		**TPC**		**Other Subsidiaries**		**TRV**		**Eliminations**		**Consolidated**
Total OTTI losses	$	(5)	$	(9)	$		$		$	(14)
OTTI losses recognized in net realized investment gains	$	(5)	$	(9)	$		$		$	(14)
OTTI gains (losses) recognized in OCI	$		$		$		$		$	

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 2014

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 4,064	$ 1,919	$	$	$ 5,983
Net investment income	479	239	1		719
Fee income	110				110
Net realized investment gains (losses)(1)	(2)	41	1		40
Other revenues	28	6			34
Total revenues	4,679	2,205	2		6,886
Claims and expenses					
Claims and claim adjustment expenses	2,359	1,161			3,520
Amortization of deferred acquisition costs	642	342			984
General and administrative expenses	716	311	4		1,031
Interest expense	12		81		93
Total claims and expenses	3,729	1,814	85		5,628
Income (loss) before income taxes	950	391	(83)		1,258
Income tax expense (benefit)	263	106	(30)		339
Net income of subsidiaries			972	(972)	
Net income	$ 687	$ 285	$ 919	$ (972)	$ 919

(1) Total other-than-temporary impairments (OTTI) for the three months ended September 30, 2014, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	$ (8)	$	$	$	$ (8)
OTTI losses recognized in net realized investment gains (losses)	$ (9)	$ (1)	$	$	$ (10)

OTTI gains recognized in OCI	$	1	$	1	$		$		$	2

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 12,150	$ 5,701	$	$	$ 17,851
Net investment income	1,235	599	4		1,838
Fee income	334				334
Net realized investment gains (1)	24	10	1		35
Other revenues	55	13			68
Total revenues	13,798	6,323	5		20,126
Claims and expenses					
Claims and claim adjustment expenses	6,982	3,378			10,360
Amortization of deferred acquisition costs	1,956	957			2,913
General and administrative expenses	2,123	909	12		3,044
Interest expense	36		242		278
Total claims and expenses	11,097	5,244	254		16,595
Income (loss) before income taxes	2,701	1,079	(249)		3,531
Income tax expense (benefit)	742	292	(76)		958
Net income of subsidiaries			2,746	(2,746)	
Net income	$ 1,959	$ 787	$ 2,573	$ (2,746)	$ 2,573

(1) Total other-than-temporary impairment (OTTI) for the nine months ended September 30, 2015, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	$ (13)	$ (13)	$	$	$ (26)
OTTI losses recognized in net realized investment gains	$ (11)	$ (12)	$	$	$ (23)
OTTI losses recognized in OCI	$ (2)	$ (1)	$	$	$ (3)

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2014

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Revenues					
Premiums	$ 12,028	$ 5,706	$	$	$ 17,734
Net investment income	1,451	695	4		2,150
Fee income	328	1			329
Net realized investment gains (1)	4	50	3		57
Other revenues	93	16			109
Total revenues	13,904	6,468	7		20,379
Claims and expenses					
Claims and claim adjustment expenses	7,149	3,512			10,661
Amortization of deferred acquisition costs	1,927	972			2,899
General and administrative expenses	2,026	876	11		2,913
Interest expense	36		241		277
Total claims and expenses	11,138	5,360	252		16,750
Income (loss) before income taxes	2,766	1,108	(245)		3,629
Income tax expense (benefit)	770	291	(86)		975
Net income of subsidiaries			2,813	(2,813)	
Net income	$ 1,996	$ 817	$ 2,654	$ (2,813)	$ 2,654

(1) Total other-than-temporary impairments (OTTI) for the nine months ended September 30, 2014, and the amounts comprising total OTTI that were recognized in net realized investment gains and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Total OTTI losses	$ (11)	$ (5)	$	$	$ (16)
OTTI losses recognized in net realized investment gains	$ (14)	$ (6)	$	$	$ (20)

OTTI gains recognized in OCI	$	3	$	1	$		$		$	4

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended September 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 699	$ 287	$ 928	$ (986)	$ 928
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	93	(17)	(9)		67
Having credit losses recognized in the consolidated statement of income	(2)	(1)			(3)
Net changes in benefit plan assets and obligations	1	1	22		24
Net changes in unrealized foreign currency translation	(148)	(79)			(227)
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(56)	(96)	13		(139)
Income tax expense (benefit)	8	(14)	4		(2)
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(64)	(82)	9		(137)
Other comprehensive loss of subsidiaries			(146)	146	
Other comprehensive loss	(64)	(82)	(137)	146	(137)
Comprehensive income	$ 635	$ 205	$ 791	$ (840)	$ 791

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended September 30, 2014

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 687	$ 285	$ 919	$ (972)	$ 919
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(118)	(35)	(1)		(154)
Having credit losses recognized in the consolidated statement of income	2	(1)			1
Net changes in benefit plan assets and obligations		1	14		15
Net changes in unrealized foreign currency translation	(120)	(83)			(203)
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(236)	(118)	13		(341)
Income tax expense (benefit)	(62)	(22)	5		(79)
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(174)	(96)	8		(262)
Other comprehensive loss of subsidiaries			(270)	270	
Other comprehensive loss	(174)	(96)	(262)	270	(262)
Comprehensive income	$ 513	$ 189	$ 657	$ (702)	$ 657

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the nine months ended September 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 1,959	$ 787	$ 2,573	$ (2,746)	$ 2,573
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(492)	(329)	(8)		(829)
Having credit losses recognized in the consolidated statement of income	(11)	(2)			(13)
Net changes in benefit plan assets and obligations	2	2	67		71
Net changes in unrealized foreign currency translation	(293)	(114)			(407)
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(794)	(443)	59		(1,178)
Income tax expense (benefit)	(224)	(126)	20		(330)
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(570)	(317)	39		(848)
Other comprehensive loss of subsidiaries			(887)	887	
Other comprehensive loss	(570)	(317)	(848)	887	(848)
Comprehensive income	$ 1,389	$ 470	$ 1,725	$ (1,859)	$ 1,725

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CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the nine months ended September 30, 2014

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Net income	$ 1,996	$ 817	$ 2,654	$ (2,813)	$ 2,654
Other comprehensive income:					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	632	266	3		901
Having credit losses recognized in the consolidated statement of income	11	(7)			4
Net changes in benefit plan assets and obligations		1	44		45
Net changes in unrealized foreign currency translation	(94)	(55)			(149)
Other comprehensive income before income taxes and other comprehensive income of subsidiaries	549	205	47		801
Income tax expense	210	84	17		311
Other comprehensive income, net of taxes, before other comprehensive income of subsidiaries	339	121	30		490
Other comprehensive income of subsidiaries			460	(460)	
Other comprehensive income	339	121	490	(460)	490
Comprehensive income	$ 2,335	$ 938	$ 3,144	$ (3,273)	$ 3,144

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At September 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost $59,688)	$ 42,426	$ 19,199	$ 46	$	$ 61,671
Equity securities, available for sale, at fair value (cost $553)	200	383	136		719
Real estate investments	56	955			1,011
Short-term securities	2,295	877	1,956		5,128
Other investments	2,578	951	1		3,530
Total investments	47,555	22,365	2,139		72,059
Cash	201	141	2		344
Investment income accrued	423	186	4		613
Premiums receivable	4,433	2,126			6,559
Reinsurance recoverables	5,846	3,103			8,949
Ceded unearned premiums	713	76			789
Deferred acquisition costs	1,702	202			1,904
Deferred taxes	127	56	58		241
Contractholder receivables	3,370	1,020			4,390
Goodwill	2,577	1,002			3,579
Other intangible assets	201	79			280
Investment in subsidiaries			28,115	(28,115)	
Other assets	2,003	385	15		2,403
Total assets	$ 69,151	$ 30,741	$ 30,333	$ (28,115)	$ 102,110
Liabilities					
Claims and claim adjustment expense reserves	$ 32,124	$ 16,472	$	$	$ 48,596
Unearned premium reserves	8,576	3,708			12,284
Contractholder payables	3,370	1,020			4,390
Payables for reinsurance premiums	264	175			439
Debt	692		6,051		6,743
Other liabilities	4,142	1,222	261		5,625
Total liabilities	49,168	22,597	6,312		78,077
Shareholders equity					
		390	22,099	(390)	22,099

Common stock (1,750.0 shares authorized; 304.2 shares issued and outstanding)					
Additional paid-in capital	11,634	6,502		(18,136)	
Retained earnings	7,857	1,070	29,251	(8,915)	29,263
Accumulated other comprehensive income	492	182	32	(674)	32
Treasury stock, at cost (458.8 shares)			(27,361)		(27,361)
Total shareholders equity	19,983	8,144	24,021	(28,115)	24,033
Total liabilities and shareholders equity	$ 69,151	$ 30,741	$ 30,333	$ (28,115)	$ 102,110

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At December 31, 2014

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost $60,801)	$ 43,401	$ 20,043	$ 30	$	$ 63,474
Equity securities, available for sale, at fair value (cost $579)	236	522	141		899
Real estate investments	56	882			938
Short-term securities	2,128	706	1,530		4,364
Other investments	2,630	955	1		3,586
Total investments	48,451	23,108	1,702		73,261
Cash	221	151	2		374
Investment income accrued	468	215	2		685
Premiums receivable	4,241	2,057			6,298
Reinsurance recoverables	6,156	3,104			9,260
Ceded unearned premiums	608	70			678
Deferred acquisition costs	1,622	213			1,835
Deferred taxes	23	(40)	50		33
Contractholder receivables	3,306	1,056			4,362
Goodwill	2,602	1,009			3,611
Other intangible assets	216	88			304
Investment in subsidiaries			28,821	(28,821)	
Other assets	1,931	429	17		2,377
Total assets	$ 69,845	$ 31,460	$ 30,594	$ (28,821)	$ 103,078
Liabilities					
Claims and claim adjustment expense reserves	$ 32,999	$ 16,851	$	$	$ 49,850
Unearned premium reserves	8,201	3,638			11,839
Contractholder payables	3,306	1,056			4,362
Payables for reinsurance premiums	194	142			336
Debt	692		5,657		6,349
Other liabilities	4,084	1,308	114		5,506
Total liabilities	49,476	22,995	5,771		78,242
Shareholders equity					
		390	21,843	(390)	21,843

Common stock (1,750.0 shares authorized; 322.2 shares issued and outstanding)					
Additional paid-in capital	11,634	6,502		(18,136)	
Retained earnings	7,673	1,073	27,238	(8,733)	27,251
Accumulated other comprehensive income	1,062	500	880	(1,562)	880
Treasury stock, at cost (437.3 shares)			(25,138)		(25,138)
Total shareholders equity	20,369	8,465	24,823	(28,821)	24,836
Total liabilities and shareholders equity	$ 69,845	$ 31,460	$ 30,594	$ (28,821)	$ 103,078

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the nine months ended September 30, 2015

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,959	$ 787	$ 2,573	$ (2,746)	$ 2,573
Net adjustments to reconcile net income to net cash provided by operating activities	90	(247)	76	182	101
Net cash provided by operating activities	2,049	540	2,649	(2,564)	2,674
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	5,929	2,869	7		8,805
Proceeds from sales of investments:					
Fixed maturities	935	620			1,555
Equity securities	14	24			38
Real estate investments		15			15
Other investments	341	164			505
Purchases of investments:					
Fixed maturities	(6,845)	(3,103)	(24)		(9,972)
Equity securities	(3)	(26)	(2)		(31)
Real estate investments		(116)			(116)
Other investments	(311)	(78)			(389)
Net purchases of short-term securities	(172)	(184)	(426)		(782)
Securities transactions in course of settlement	80	23			103
Other	(262)	40			(222)
Net cash provided by (used in) investing activities	(294)	248	(445)		(491)
Cash flows from financing activities					
Issuance of debt			392		392
Treasury stock acquired share repurchase authorization			(2,150)		(2,150)
Treasury stock acquired net employee share-based compensation			(73)		(73)
Dividends paid to shareholders			(557)		(557)
Issuance of common stock employee share options			142		142

Excess tax benefits from share-based payment arrangements			42		42
Dividends paid to parent company	(1,774)	(790)		2,564	
Net cash used in financing activities	(1,774)	(790)	(2,204)	2,564	(2,204)
Effect of exchange rate changes on cash	(1)	(8)			(9)
Net decrease in cash	(20)	(10)			(30)
Cash at beginning of year	221	151	2		374
Cash at end of period	$ 201	$ 141	$ 2	$	$ 344
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 748	$ 286	$ (152)	$	$ 882
Interest paid	$ 40	$	$ 177	$	$ 217

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the nine months ended September 30, 2014

(in millions)	TPC	Other Subsidiaries	TRV	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,996	$ 817	$ 2,654	$ (2,813)	$ 2,654
Net adjustments to reconcile net income to net cash provided by operating activities	391	(73)	322	(126)	514
Net cash provided by operating activities	2,387	744	2,976	(2,939)	3,168
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	4,886	3,088	1		7,975
Proceeds from sales of investments:					
Fixed maturities	511	415	1		927
Equity securities	83	41	4		128
Real estate investments	1	4			5
Other investments	317	295			612
Purchases of investments:					
Fixed maturities	(4,888)	(3,345)	(4)		(8,237)
Equity securities	(3)	(38)	(6)		(47)
Real estate investments	(22)	(19)			(41)
Other investments	(292)	(114)			(406)
Net purchases of short-term securities	(552)	(326)	(285)		(1,163)
Securities transactions in course of settlement	66	53			119
Acquisitions, net of cash acquired	(9)	(3)			(12)
Other	(256)	(6)			(262)
Net cash provided by (used in) investing activities	(158)	45	(289)		(402)
Cash flows from financing activities					
Treasury stock acquired share repurchase authorization			(2,275)		(2,275)
Treasury stock acquired net employee share-based compensation			(56)		(56)
Dividends paid to shareholders			(549)		(549)
Issuance of common stock employee share options			154		154

Excess tax benefits from share-based payment arrangements			38		38
Dividends paid to parent company	(2,150)	(789)		2,939	
Net cash used in financing activities	(2,150)	(789)	(2,688)	2,939	(2,688)
Effect of exchange rate changes on cash		(5)			(5)
Net increase (decrease) in cash	79	(5)	(1)		73
Cash at beginning of year	137	154	3		294
Cash at end of period	$ 216	$ 149	$ 2	$	$ 367
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 684	$ 215	$ (114)	$	$ 785
Interest paid	$ 40	$	$ 177	$	$ 217

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

The following is a discussion and analysis of the Company s financial condition and results of operations.

FINANCIAL HIGHLIGHTS

2015 Third Quarter Consolidated Results of Operations

- Net income of $928 million, or $3.00 per share basic and $2.97 per share diluted
- Net earned premiums of $6.03 billion
- Catastrophe losses of $85 million ($56 million after-tax)
- Net favorable prior year reserve development of $199 million ($132 million after-tax)
- Combined ratio of 86.9%
- Net investment income of $614 million ($484 million after-tax)

2015 Third Quarter Consolidated Financial Condition

- Total investments of $72.06 billion; fixed maturities and short-term securities comprised 93% of total investments
- Total assets of $102.11 billion
- Total debt of $6.74 billion, resulting in a debt-to-total capital ratio of 21.9% (23.0% excluding net unrealized investment gains, net of tax). On August 25, 2015, the Company issued $400 million of 4.30%, 30-year senior notes, the net proceeds of which are intended to be used in connection with the repayment of the $400 million, 5.50% senior notes which mature on December 1, 2015.

- Repurchased 7.3 million common shares for total cost of $750 million and paid $188 million of dividends to shareholders
- Shareholders equity of $24.03 billion
- Net unrealized investment gains of $2.17 billion ($1.41 billion after-tax)
- Book value per common share of $79.00
- Holding company liquidity of $2.04 billion

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CONSOLIDATED OVERVIEW

Consolidated Results of Operations

(in millions, except ratio and per share amounts)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenues				
Premiums	**$ 6,032**	$ 5,983	**$ 17,851**	$ 17,734
Net investment income	**614**	719	**1,838**	2,150
Fee income	**112**	110	**334**	329
Net realized investment gains	**15**	40	**35**	57
Other revenues	**21**	34	**68**	109
Total revenues	**6,794**	6,886	**20,126**	20,379
Claims and expenses				
Claims and claim adjustment expenses	**3,382**	3,520	**10,360**	10,661
Amortization of deferred acquisition costs	**987**	984	**2,913**	2,899
General and administrative expenses	**1,024**	1,031	**3,044**	2,913
Interest expense	**94**	93	**278**	277
Total claims and expenses	**5,487**	5,628	**16,595**	16,750
Income before income taxes	**1,307**	1,258	**3,531**	3,629
Income tax expense	**379**	339	**958**	975
Net income	**$ 928**	$ 919	**$ 2,573**	$ 2,654
Net income per share				
Basic	**$ 3.00**	$ 2.72	**$ 8.13**	$ 7.68
Diluted	**$ 2.97**	$ 2.69	**$ 8.04**	$ 7.60
Combined ratio				
Loss and loss adjustment expense ratio	**55.2%**	58.0%	**57.2%**	59.2%
Underwriting expense ratio	**31.7**	32.0	**31.7**	31.1
Combined ratio	**86.9%**	90.0%	**88.9%**	90.3%
Incremental impact of direct to consumer initiative on combined ratio	**0.5%**	0.6%	**0.5%**	0.5%

The following discussions of the Company s net income and segment operating income 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

Diluted net income per share of $2.97 in the third quarter of 2015 increased by 10% over diluted net income per share of $2.69 in the same period of 2014. Net income of $928 million in the third quarter of 2015 increased by 1% over net income of $919 million in the same period of

2014. The higher rate of increase in diluted net income per share reflected the impact of share repurchases in recent periods. The increase in net income in the third quarter of 2015 compared with the same period of 2014 primarily reflected the pretax impacts of (i) higher underwriting margins excluding catastrophe losses and prior year reserve development (underlying underwriting margins) and (ii) higher net favorable prior year reserve development, partially offset by (iii) lower net investment income and (iv) lower net realized investment gains. Net favorable prior year reserve development in the third quarters of 2015 and 2014 was $199 million and $113 million, respectively. Catastrophe losses in the third quarters of 2015 and 2014 were $85 million and $83 million, respectively. The higher underlying underwriting margins primarily resulted from lower non-catastrophe weather-related losses. Partially offsetting

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this net pretax increase in income was a related increase in income tax expense that included the impact of a lower level of tax-exempt investment income.

Diluted net income per share of $8.04 in the first nine months of 2015 increased by 6% over diluted net income per share of $7.60 in the same period of 2014. Net income of $2.57 billion in the first nine months of 2015 decreased by 3% from net income of $2.65 billion in the same period of 2014. The percentage increase in diluted net income per share compared with the percentage decrease in net income reflected the impact of share repurchases in recent periods. The decrease in net income primarily reflected the pretax impacts of (i) lower net investment income, (ii) a decline in other revenues and (iii) lower net realized investment gains, partially offset by (iv) lower catastrophe losses, (v) higher net favorable prior year reserve development and (vi) higher underlying underwriting margins. Catastrophe losses in the first nine months of 2015 and 2014 were $468 million and $668 million, respectively. Net favorable prior year reserve development in the first nine months of 2015 and 2014 was $649 million and $590 million, respectively. The higher underlying underwriting margins primarily resulted from lower non-catastrophe weather-related losses, partially offset by the impact of a first quarter 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers compensation premiums due to a change in state law. Partially offsetting this net pretax decrease in income was a related decrease in income tax expense that included the impact of a lower level of tax-exempt investment income and a $32 million reduction in income tax expense as a result of the resolution of prior year tax matters in the second quarter of 2015.

The Company has insurance operations in Canada, the United Kingdom and the Republic of Ireland, as well as a joint venture in Brazil. Because these operations are conducted in local currencies other than the U.S. dollar, the Company is subject to changes in foreign currency exchange rates. For the three months and nine months ended September 30, 2015 and 2014, changes in foreign currency exchange rates had the impact of lowering the reported line items in the statement of income by insignificant amounts. The impact of these changes was not material to the Company s net income or the Business and International Insurance segment s operating income for the periods reported.

Revenues

Earned Premiums

Earned premiums in the third quarter of 2015 were $6.03 billion, $49 million or 1% higher than in the same period of 2014. Earned premiums in the first nine months of 2015 were $17.85 billion, $117 million or 1% higher than in the same period of 2014. In the Business and International Insurance segment, earned premiums in the third quarter and first nine months of 2015 were comparable to the same periods of 2014. In the Bond & Specialty Insurance segment, earned premiums in the third quarter and first nine months of 2015 increased by 2% and 1%, respectively, over the same periods of 2014. In the Personal Insurance segment, earned premiums in the third quarter and first nine months of 2015 increased by 2% and 1%, respectively, over the same periods of 2014. Factors contributing to the changes in earned premiums in each segment are discussed in more detail in the segment discussions that follow.

Net Investment Income

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

(dollars in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Average investments (1)	**$ 70,569**	$ 72,062	**$ 70,607**	$ 72,062
Pretax net investment income	**614**	719	**1,838**	2,150
After-tax net investment income	**484**	568	**1,465**	1,703
Average pretax yield (2)	**3.5%**	4.0%	**3.5%**	4.0%
Average after-tax yield (2)	**2.7%**	3.2%	**2.8%**	3.2%

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

(2) Excludes net realized and unrealized investment gains and losses, net of tax.

Net investment income in the third quarter of 2015 was $614 million, $105 million or 15% lower than in the same period of 2014. Net investment income in the first nine months of 2015 was $1.84 billion, $312 million or 15% lower than in the

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same period of 2014. Investment income from fixed maturity investments in the third quarter and first nine months of 2015 was $516 million and $1.57 billion, respectively, $36 million and $121 million lower, respectively, than in the same periods of 2014. The decreases primarily resulted from lower long-term reinvestment rates available in the market and a modestly lower amount of fixed income investments that were impacted by the Company s $579 million payment in the first quarter of 2015 related to the settlement of the Asbestos Direct Action Litigation. Investment income generated by non-fixed maturity investments in the third quarter and first nine months of 2015 was $105 million and $287 million, respectively, $69 million and $190 million lower, respectively, than in the same periods of 2014 due to lower private equity and hedge fund returns. Private equity returns for the first nine months of 2015 were impacted by lower valuations for energy-related investments.

Fee Income

The National Accounts market in the Business and International Insurance segment is the primary source of the Company s fee-based business. The changes in fee income in the third quarter and first nine months of 2015, respectively, compared with the same periods of 2014 are discussed in the Business and International Insurance segment discussion that follows.

Net Realized Investment Gains

The following table sets forth information regarding the Company s net realized investment gains.

(in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net Realized Investment Gains				
Other-than-temporary impairment losses	**$ (14)**	$ (10)	**$ (23)**	$ (20)
Other net realized investment gains	**29**	50	**58**	77
Net realized investment gains	**$ 15**	$ 40	**$ 35**	$ 57

Other net realized investment gains in the third quarter and first nine months of 2014 included $35 million of net realized gains resulting from the sale of substantially all of one of the Company s real estate joint venture investments.

Other Revenues

Other revenues in all periods of 2015 and 2014 primarily consisted of installment premium charges. The first nine months of 2014 also included revenues in the Personal Insurance segment associated with the runoff of the Company s National Flood Insurance Program business that was sold on a renewal rights basis in 2013.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in the third quarter of 2015 were $3.38 billion, $138 million or 4% lower than in the same period of 2014, primarily reflecting (i) lower non-catastrophe weather-related losses and (ii) higher net favorable prior year reserve development, partially offset by (iii) the impact of loss cost trends. Catastrophe losses in the third quarter of 2015 primarily resulted from wildfires in California and hail and wind storms in the Midwest region of the United States. Catastrophe losses in the third quarter of 2014 primarily resulted from a wind storm and flooding in the Northeast region of the United States, a hail storm in Colorado and increases to estimated losses related to wind and hail storms that occurred in the second quarter of 2014. Factors contributing to net favorable prior year reserve development in each segment during the third quarters of 2015 and 2014 are discussed in the segment discussions that follow.

Claims and claim adjustment expenses in the first nine months of 2015 were $10.36 billion, $301 million or 3% lower than in the same period of 2014, primarily reflecting (i) lower catastrophe losses, (ii) lower non-catastrophe weather-related losses and (iii) higher net favorable prior year reserve development, partially offset by (iv) the impact of loss cost trends. Catastrophe losses in the first nine months of 2015 included the third quarter losses described above, wind and hail storms in several regions of the United States in the second quarter and winter storms in the Mid-Atlantic, Midwestern and Southeastern regions of the United States in the first quarter of 2015. Catastrophe losses in the first nine months of 2014 included the third quarter losses described above, wind and hail storms in several regions of the United States in the second quarter of 2014 and a winter storm in the Mid-Atlantic, Midwestern and Southeastern regions of the United States in the first quarter of 2014. Factors contributing to net favorable prior year reserve development in each segment during these periods are discussed in the segment discussions that follow.

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Significant Catastrophe Losses

The following table presents for significant catastrophes that occurred in 2015, 2014 and 2013 the amount of losses incurred in the three months and nine months ended September 30, 2015 and 2014, and the amount of net unfavorable (favorable) prior year reserve development recognized in these periods, as well as the estimated ultimate losses for these significant catastrophes at September 30, 2015 and December 31, 2014. For purposes of the table, a significant catastrophe is an event for which the Company estimates its ultimate losses will be $100 million or more after reinsurance and before taxes. For the Company s definition of a catastrophe, refer to Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidated Overview in the Company s 2014 Annual Report.

	Losses Incurred/Unfavorable (Favorable) Prior Year Reserve Development					
	Three Months Ended September 30,		Nine Months Ended September 30,		Estimated Ultimate Losses	
(in millions, pretax and net of reinsurance)	**2015**	**2014**	**2015**	**2014**	**September 30, 2015**	**December 31, 2014**
2013						
PCS Serial Number:						
93 Severe wind and hail storms	$	$ 5	$ 6	$ 5	$ 125	$ 119
15 Severe wind and hail storms	(1)	7	(1)	8	143	144
2014						
PCS Serial Number:						
32 Winter storm	(2)	(3)	(5)	149	139	144
43 Severe wind and hail storms		28	(1)	144	179	180
2015						
PCS Serial Number:						
68 Winter storm	(7)	n/a	146	n/a	146	n/a

n/a: not applicable.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in the third quarter and first nine months of 2015 was $987 million and $2.91 billion, respectively, comparable to the same periods of 2014. Amortization of deferred acquisition costs is discussed in more detail in the segment discussions that follow.

General and Administrative Expenses

General and administrative expenses in the third quarter of 2015 were $1.02 billion, $7 million or 1% lower than in the same period of 2014. General and administrative expenses in the first nine months of 2015 were $3.04 billion, $131 million or 4% higher than in the same period of

2014. The increase in the first nine months of 2015 primarily reflected the impact of a $76 million first quarter 2014 reduction in the estimated liability for state assessments related to workers compensation premiums. General and administrative expenses are discussed in more detail in the segment discussions that follow.

Interest Expense

Interest expense in the third quarter and first nine months of 2015 was $94 million and $278 million, respectively, compared with $93 million and $277 million in the same periods of 2014.

Income Tax Expense

Income tax expense in the third quarter of 2015 was $379 million, $40 million or 12% higher than in the same period of 2014, which primarily resulted from the $49 million increase in income before income taxes in the third quarter of 2015 combined with the impact of a lower level of tax-exempt investment income. Income tax expense in the first nine months of 2015 was $958 million, $17 million or 2% lower than in the same period of 2014, primarily reflecting a $32 million reduction in income tax expense in the second quarter of 2015 resulting from the resolution of prior year tax matters and the impact of the $98 million decrease in income before income taxes in the first nine months of 2015 combined with the impact of a lower level of tax-exempt investment income.

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The Company s effective tax rates in the third quarter and first nine months of 2015 were 29% and 27%, respectively. In both the third quarter and first nine months of 2014, the Company s effective tax rates were 27%. The effective tax rates in all periods were lower than the statutory rate of 35% primarily due to the impact of tax-exempt investment income on the calculation of the Company s income tax provision. The effective tax rates in the third quarter and first nine months of 2015 included the impact of a lower level of tax-exempt investment income. The effective tax rate in the first nine months of 2015 was reduced by the impact of the resolution of prior year tax matters.

Combined Ratio

The combined ratio of 86.9% in the third quarter of 2015 was 3.1 points lower than the combined ratio of 90.0% in the same period of 2014. The combined ratio of 88.9% in the first nine months of 2015 was 1.4 points lower than the combined ratio of 90.3% in the same period of 2014.

The loss and loss adjustment expense ratio of 55.2% in the third quarter of 2015 was 2.8 points lower than the loss and loss adjustment expense ratio of 58.0% in the same period of 2014. Catastrophe losses accounted for 1.4 points of both the 2015 and 2014 third quarter loss and loss adjustment expense ratios. Net favorable prior year reserve development in the third quarters of 2015 and 2014 provided 3.3 points and 1.9 points of benefit, respectively, to the loss and loss adjustment expense ratio. The loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development (underlying loss and loss adjustment expense ratio) in the third quarter of 2015 was 1.4 points lower than the 2014 ratio on the same basis, primarily reflecting lower non-catastrophe weather-related losses.

The loss and loss adjustment expense ratio of 57.2% in the first nine months of 2015 was 2.0 points lower than the loss and loss adjustment expense ratio of 59.2% in the same period of 2014. Catastrophe losses accounted for 2.6 points and 3.7 points of the 2015 and 2014 nine-month loss and loss adjustment expense ratios, respectively. Net favorable prior year reserve development in the first nine months of 2015 and 2014 provided 3.6 points and 3.3 points of benefit, respectively, to the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in the first nine months of 2015 was 0.6 points lower than the 2014 ratio on the same basis, primarily reflecting lower non-catastrophe weather-related losses.

The underwriting expense ratio of 31.7% for the third quarter of 2015 was 0.3 points lower than the underwriting expense ratio of 32.0% in the same period of 2014. In the first nine months of 2015, the underwriting expense ratio of 31.7% was 0.6 points higher than the underwriting expense ratio of 31.1% in the same period of 2014, primarily reflecting the impact of the first quarter 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers compensation premiums in the Business and International Insurance segment.

Written Premiums

Consolidated gross and net written premiums were as follows:

	Gross Written Premiums	
	Three Months Ended September 30,	**Nine Months Ended September 30,**

(in millions)		2015		2014		2015		2014
Business and International Insurance	**$**	**3,981**	$	4,057	**$**	**12,284**	$	12,342
Bond & Specialty Insurance		**580**		562		**1,639**		1,632
Personal Insurance		**2,057**		1,959		**5,711**		5,524
Total	**$**	**6,618**	$	6,578	**$**	**19,634**	$	19,498

	Net Written Premiums							
	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)		2015		2014		2015		2014
Business and International Insurance	**$**	**3,590**	$	3,560	**$**	**11,066**	$	11,061
Bond & Specialty Insurance		**565**		556		**1,577**		1,578
Personal Insurance		**2,036**		1,917		**5,614**		5,429
Total	**$**	**6,191**	$	6,033	**$**	**18,257**	$	18,068

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Gross and net written premiums in the third quarter of 2015 increased by 1% and 3%, respectively, over the same periods of 2014. Gross and net written premiums in the first nine months of 2015 both increased by 1% over the same period of 2014. Gross and net written premiums in the third quarter and first nine months of 2015 were negatively impacted by changes in foreign currency exchange rates in the Business and International Insurance segment. The difference in growth rates for gross and net written premiums for the third quarter of 2015 primarily reflected the impact of changes in the timing and structure of certain of the Company s reinsurance treaties that occurred in prior quarters. For a discussion of changes in the Company s catastrophe reinsurance coverage, see the Catastrophe Reinsurance Coverage section in Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015. Factors contributing to the changes in gross and net written premiums in each segment are discussed in more detail in the segment discussions that follow.

RESULTS OF OPERATIONS BY SEGMENT

Business and International Insurance

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

(dollars in millions)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Revenues				
Earned premiums	**$ 3,653**	$ 3,660	**$ 10,882**	$ 10,849
Net investment income	**471**	557	**1,412**	1,666
Fee income	**112**	110	**334**	329
Other revenues	**5**	10	**18**	32
Total revenues	**$ 4,241**	$ 4,337	**$ 12,646**	$ 12,876
Total claims and expenses	**$ 3,493**	$ 3,610	**$ 10,486**	$ 10,594
Operating income	**$ 546**	$ 552	**$ 1,604**	$ 1,717
Loss and loss adjustment expense ratio	**59.6%**	63.1%	**60.5%**	63.0%
Underwriting expense ratio	**32.6**	32.1	**32.4**	31.2
Combined ratio	**92.2%**	95.2%	**92.9%**	94.2%

Overview

Operating income in the third quarter of 2015 was $546 million, $6 million or 1% lower than operating income of $552 million in the same period of 2014. This decrease reflected an increase in income before income taxes, which was more than offset by an increase in income tax expense. The increase in operating income before income taxes primarily reflected the pretax impacts of (i) higher underlying underwriting margins and (ii) higher net favorable prior year reserve development, partially offset by (iii) lower net investment income. Net favorable prior year reserve development in the third quarters of 2015 and 2014 was $49 million and $21 million, respectively. Catastrophe losses in the third quarters of 2015 and 2014 were $39 million and $31 million, respectively. The increase in underlying underwriting margins primarily resulted from lower non-catastrophe weather-related losses. The increase in income tax expense primarily resulted from the increase in operating income before income taxes combined with the impact of a lower level of tax-exempt investment income.

Operating income in the first nine months of 2015 was $1.60 billion, $113 million or 7% lower than operating income of $1.72 billion in the same period of 2014. This decrease primarily reflected the pretax impacts of (i) lower net investment income and (ii) lower underlying underwriting margins, partially offset by (iii) lower catastrophe losses and (iv) higher net favorable prior year reserve development. Catastrophe losses in the first nine months of 2015 and 2014 were $246 million and $356 million, respectively. Net favorable prior year reserve development in the first nine months of 2015 and 2014 was $229 million and $163 million, respectively. The decline in underlying underwriting margins primarily resulted from the pretax impacts of the first quarter 2014 reduction in the estimated liability for state assessments to be paid by the Company

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related to workers compensation premiums, partially offset by lower non-catastrophe weather-related losses. Partially offsetting this net pretax decrease in income was a related decrease in income tax expense that included the impact of a lower level of tax-exempt investment income and a $12 million reduction in income tax expense as a result of the resolution of prior year tax matters in the second quarter of 2015.

Revenues

Earned Premiums

Earned premiums of $3.65 billion in the third quarter of 2015 and $10.88 billion in the first nine months of 2015 were comparable to the same periods of 2014.

Net Investment Income

Net investment income in the third quarter of 2015 was $471 million, $86 million or 15% lower than in the same 2014 period. Net investment income in the first nine months of 2015 was $1.41 billion, $254 million or 15% lower than in the same period of 2014. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the decreases in the Company s consolidated net investment income in the third quarter and first nine months of 2015 compared with the same periods of 2014. In addition, refer to note 2 of notes to the Company s consolidated financial statements in the Company s 2014 Annual Report for a discussion of the Company s net investment income allocation methodology.

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, as well as claims and policy management services to workers compensation residual market pools. Fee income in the third quarter of 2015 was $112 million, $2 million or 2% higher than in the same period of 2014. Fee income in the first nine months of 2015 was $334 million, $5 million or 2% higher than in the same period of 2014.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in the third quarter of 2015 were $2.23 billion, $131 million or 6% lower than in the same period of 2014. This decrease primarily reflected (i) lower non-catastrophe weather-related losses and (ii) higher net favorable prior year reserve development, partially offset by (iii) the impact of loss cost trends. Net favorable prior year reserve development in the third quarter of 2015 was primarily driven by (i) better than expected loss experience for the property product line related to catastrophe losses for accident years 2011, 2012 and 2014 and non-catastrophe losses for accident years 2013 and 2014, (ii) better than expected loss experience in the general liability product line for both primary and excess coverages for accident years 2005 through 2013, reflecting a more favorable legal environment than the Company previously expected, (iii) better than expected loss experience in the workers compensation product line for accident years 2005 and prior and (iv) better than expected loss experience in the Company s operations in Canada. These factors contributing to net favorable prior year reserve development were partially offset by a $224 million increase to asbestos reserves. Net favorable prior year reserve development in the third quarter of 2014 was primarily driven by (i) a $162 million benefit resulting from better than expected loss experience related to, and the commutation of reinsurance treaties associated with, a workers compensation reinsurance pool for accident years 1996 and prior, (ii) better than expected loss experience in the general liability product line related to excess coverages for accident years 2009 through 2012, reflecting a more favorable legal environment than the Company previously expected and (iii) better than expected loss experience in the property product line for accident years 2012 and 2013, including catastrophe losses from Storm Sandy for accident year 2012. These factors contributing to net favorable prior year reserve development in the third quarter of 2014 were partially offset by (i) a $250 million increase to asbestos reserves and (ii) an increase in unallocated loss adjustment expense reserves of $77 million for interest awarded as part of damages pursuant to a court decision in the third quarter of 2014 related to a pending legal matter, which is discussed in more detail in the Settlement of Asbestos Direct Action section of note 12 of notes to the unaudited consolidated financial statements herein. The increases to asbestos reserves in the third quarters of both 2015 and 2014 are discussed in further detail in the Asbestos Claims and Litigation section herein.

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Claims and claim adjustment expenses in the first nine months of 2015 were $6.73 billion, $260 million or 4% lower than in the same period of 2014. The decrease in 2015 primarily reflected (i) lower catastrophe losses, (ii) lower non-catastrophe weather-related losses and (iii) higher net favorable prior year reserve development, partially offset by (iv) the impact of loss cost trends. Net favorable prior year reserve development in the first nine months of 2015 was primarily driven by (i) better than expected loss experience in the general liability product line, for both primary and excess coverages for accident years 2005 through 2013, reflecting a more favorable legal environment than the Company previously expected, (ii) better than expected loss experience for the property product line related to catastrophe losses for accident years 2011, 2012 and 2014 and non-catastrophe losses for accident years 2013 and 2014, (iii) better than expected loss experience in the workers compensation line of business for accident years 2006 and prior and (iv) better than expected loss experience in the Company s operations at Lloyd s and in Canada. These factors contributing to net favorable prior year reserve development in the first nine months of 2015 were partially offset by the $224 million increase to asbestos reserves described above and a $72 million increase to environmental reserves in the second quarter of 2015. Net favorable prior year reserve development in the first nine months of 2014 was primarily driven by (i) the $162 million benefit related to the workers compensation reinsurance pool, (ii) better than expected loss experience in the general liability product line related to excess coverages for accident years 2012 and prior, reflecting a more favorable legal environment than the Company previously expected and (iii) better than expected loss experience in the property product line for accident years 2010 through 2013, including catastrophe losses from Storm Sandy for accident year 2012. These factors contributing to net favorable prior year reserve development in the first nine months of 2014 were partially offset by (i) the $250 million increase to asbestos reserves described above, (ii) an $87 million increase to environmental reserves, (iii) an increase in unallocated loss adjustment expense reserves of $77 million for interest awarded as part of damages pursuant to a court decision described above and (iv) higher than expected loss experience for liability coverages in the commercial multi-peril product line for accident years 2010 through 2013. The increases to environmental reserves in both 2015 and 2014 are discussed in further detail in the Environmental Claims and Litigation section herein.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in the third quarter of 2015 was $589 million, comparable to the same period of 2014. Amortization of deferred acquisition costs in the first nine months of 2015 was $1.75 billion, $17 million or 1% higher than in the same period of 2014.

General and Administrative Expenses

General and administrative expenses in the third quarter of 2015 were $675 million, $14 million or 2% higher than in the same period of 2014, primarily due to higher contingent commissions and technology and employee related expenses. General and administrative expenses in the first nine months of 2015 were $2.00 billion, $135 million or 7% higher than in the same period of 2014, primarily reflecting the impacts of the first quarter 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers compensation premiums, higher technology and employee related expenses and higher contingent commissions.

Income Tax Expense

Income tax expense in the third quarter of 2015 was $202 million, $27 million or 15% higher than in the same period of 2014, which primarily resulted from the $21 million increase in income before income taxes in the third quarter of 2015 combined with the impact of a lower level of tax-exempt investment income. Income tax expense in the first nine months of 2015 was $556 million, $9 million or 2% lower than in the same period of 2014, primarily reflecting the impact of the $122 million decrease in income before income taxes in the first nine months of 2015 combined with the impact of a lower level of tax-exempt investment income and a $12 million reduction in income tax expense in the second quarter of 2015 resulting from the resolution of prior year tax matters.

Combined Ratio

The combined ratio of 92.2% in the third quarter of 2015 was 3.0 points lower than the combined ratio of 95.2% in the same period of 2014. The combined ratio of 92.9% in the first nine months of 2015 was 1.3 points lower than the combined ratio of 94.2% in the same period of 2014.

The loss and loss adjustment expense ratio of 59.6% in the third quarter of 2015 was 3.5 points lower than the loss and loss adjustment expense ratio of 63.1% in the same period of 2014. Catastrophe losses in the third quarters of 2015 and 2014 accounted for 1.1 points and 0.9 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year

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reserve development in the third quarters of 2015 and 2014 provided 1.4 points and 0.6 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2015 third quarter underlying loss and loss adjustment expense ratio was 2.9 points lower than the 2014 ratio on the same basis, primarily reflecting lower non-catastrophe weather-related losses.

The loss and loss adjustment expense ratio of 60.5% in the first nine months of 2015 was 2.5 points lower than the loss and loss adjustment expense ratio of 63.0% in the same period of 2014. Catastrophe losses in the first nine months of 2015 and 2014 accounted for 2.2 points and 3.3 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in the first nine months of 2015 and 2014 provided 2.1 points and 1.5 points of benefit, respectively, to the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in the first nine months of 2015 was 0.8 points lower than the 2014 ratio on the same basis, primarily reflecting lower non-catastrophe weather-related losses.

The underwriting expense ratio of 32.6% for the third quarter of 2015 was 0.5 points higher than the underwriting expense ratio of 32.1% in the same period of 2014. In the first nine months of 2015, the underwriting expense ratio of 32.4% was 1.2 points higher than the underwriting expense ratio of 31.2% in the same 2014 period, primarily reflecting the impact of the first quarter 2014 reduction in the estimated liability for state assessments to be paid by the Company related to workers compensation premiums.

Written Premiums

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

	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Domestic:				
Select Accounts	**$ 668**	$ 667	**$ 2,131**	$ 2,115
Middle Market	**1,693**	1,670	**5,075**	4,920
National Accounts	**397**	408	**1,283**	1,261
First Party	**520**	509	**1,449**	1,452
Specialized Distribution	**278**	264	**849**	817
Total Domestic	**3,556**	3,518	**10,787**	10,565
International	**425**	539	**1,497**	1,777
Total Business and International Insurance	**$ 3,981**	$ 4,057	**$ 12,284**	$ 12,342

	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Domestic:				
Select Accounts	**$ 654**	$ 654	**$ 2,085**	$ 2,077
Middle Market	**1,602**	1,545	**4,791**	4,597

National Accounts	**254**	249	**781**	792
First Party	**411**	369	**1,203**	1,206
Specialized Distribution	**277**	262	**845**	812
Total Domestic	**3,198**	3,079	**9,705**	9,484
International	**392**	481	**1,361**	1,577
Total Business and International Insurance	**$ 3,590**	$ 3,560	**$ 11,066**	$ 11,061

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Gross and net written premiums in the third quarter of 2015 decreased by 2% and increased by 1%, respectively, compared with the same period of 2014. Gross and net written premiums in the first nine months of 2015 were comparable to the same period of 2014. Gross and net written premiums in the third quarter and first nine months of 2015 were negatively impacted by changes in foreign currency exchange rates. Net written premiums in the third quarter of 2015 were positively impacted by changes in the timing and structure of certain of the Company s reinsurance treaties in prior quarters, including changes in the Company s corporate catastrophe reinsurance treaties. Excluding the International surety line of business, for which the following are not relevant measures, business retention rates in the third quarter and first nine months of 2015 remained strong and were higher than in the same periods of 2014. Renewal premium changes in the third quarter and first nine months of 2015 remained positive but were lower than in the same periods of 2014. New business premiums in the third quarter and first nine months of 2015 decreased from the same period of 2014.

Select Accounts. Net written premiums of $654 million in the third quarter of 2015 were level with the same period of 2014, while net written premiums of $2.09 billion in the first nine months of 2015 were comparable to the same period of 2014. Business retention rates in the third quarter and first nine months of 2015 remained strong and were higher than in the same periods of 2014. Renewal premium changes in the third quarter and first nine months of 2015 remained positive but were lower than in the same periods of 2014, while new business premiums in the third quarter and first nine months of 2015 decreased from the same periods of 2014.

Middle Market. Net written premiums of $1.60 billion and $4.79 billion in the third quarter and first nine months of 2015, respectively, both increased by 4% over the same periods of 2014. The increase in net written premiums in the third quarter of 2015 included the impact of changes in the timing and structure of certain reinsurance transactions in prior quarters. Business retention rates in the third quarter and first nine months of 2015 remained strong and were higher than in the same periods of 2014. Renewal premium changes in the third quarter and first nine months of 2015 remained positive but were lower than in the same periods of 2014. New business premiums in the third quarter of 2015 decreased from the same period of 2014, while new business premiums in the first nine months of 2015 increased over the same period of 2014.

National Accounts. Net written premiums of $254 million in the third quarter of 2015 increased by 2% over the same period of 2014, while net written premiums of $781 million in the first nine months of 2015 decreased by 1% from the same period of 2014. Business retention rates in the third quarter of 2015 remained strong but were lower than in the same period of 2014, while business retention rates in the first nine months of 2015 remained strong and were higher than in the same period of 2014. Renewal premium changes in the third quarter of 2015 remained positive and were higher than in the same period of 2014, while renewal premium changes in the first nine months of 2015 remained positive but were lower than in the same period of 2014. New business premiums in the third quarter and first nine months of 2015 increased from the same periods of 2014.

First Party. Net written premiums of $411 million in the third quarter of 2015 increased by 11% over the same period of 2014, while net written premiums of $1.20 billion in the first nine months of 2015 were comparable to the same period of 2014. The increase in net written premiums in the third quarter of 2015 included the impact of changes in the timing and structure of certain reinsurance transactions in prior quarters. Business retention rates in the third quarter and first nine months of 2015 remained strong and were higher than in the same periods of 2014. Renewal premium changes in the third quarter and first nine months of 2015 were negative, compared with positive renewal premium changes in the same periods of 2014. New business premiums in the third quarter of 2015 increased over the same period of 2014, while new business premiums in the first nine months of 2015 decreased from the same period of 2014.

Specialized Distribution. Net written premiums of $277 million and $845 million in the third quarter and first nine months of 2015, respectively, increased by 6% and 4%, respectively, over the same periods of 2014. Business retention rates in the third quarter and first nine months of 2015 remained strong and were higher than in the same periods of 2014. Renewal premium changes in the third quarter and first nine months of 2015 remained positive but were lower than in the same period of 2014. New business premiums in the third quarter and first nine months of 2015 increased over the same periods of 2014.

International. Net written premiums of $392 million in the third quarter of 2015 decreased by 19% from the same period of 2014, primarily due to changes in foreign currency exchange rates and lower business volume in the Company s operations at Lloyd s. Net written premiums of $1.36 billion in the first nine months of 2015 decreased by 14% from the same period of 2014, primarily due to changes in foreign currency exchange rates, partially offset by the impact of changes in the timing and structure of certain reinsurance transactions related to the Company s Canadian operations. Excluding the surety line of

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business, for which the following are not relevant measures, business retention rates in the third quarter of 2015 remained strong but were lower than in the same period of 2014, while business retention rates in the first nine months of 2015 remained strong and were higher than in the same periods of 2014. Renewal premium changes in the third quarters of both 2015 and 2014 were negative, while renewal premium changes for the first nine months of 2015 remained positive but lower than in the same period of 2014. New business premiums in the third quarter and first nine months of 2015 decreased from the same periods of 2014.

Bond & Specialty Insurance

Results of the Company s Bond & Specialty Insurance segment were as follows:

(dollars in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenues				
Earned premiums	**$ 539**	$ 527	**$ 1,567**	$ 1,554
Net investment income	**56**	64	**169**	192
Other revenues	**4**	5	**14**	15
Total revenues	**$ 599**	$ 596	**$ 1,750**	$ 1,761
Total claims and expenses	**$ 310**	$ 354	**$ 1,084**	$ 1,010
Operating income	**$ 196**	$ 165	**$ 471**	$ 511
Loss and loss adjustment expense ratio	**20.6%**	28.7%	**31.3%**	26.7%
Underwriting expense ratio	**36.5**	38.2	**37.5**	37.9
Combined ratio	**57.1%**	66.9%	**68.8%**	64.6%

Overview

Operating income in the third quarter of 2015 was $196 million, $31 million or 19% higher than operating income of $165 million in the same period of 2014. This increase primarily reflected the pretax impacts of (i) higher underlying underwriting margins and (ii) higher net favorable prior year reserve development, partially offset by (iii) lower net investment income. Net favorable prior year reserve development in the third quarters of 2015 and 2014 was $103 million and $79 million, respectively. Catastrophe losses in the third quarters of both 2015 and 2014 were $1 million. The higher underlying underwriting margins primarily resulted from a re-estimation of current accident year losses in certain management liability businesses. Partially offsetting this net pretax increase in operating income was a related increase in income tax expense.

Operating income in the first nine months of 2015 was $471 million, $40 million or 8% lower than operating income of $511 million in the same period of 2014. This decrease primarily reflected the pretax impacts of (i) a decrease in net favorable prior year reserve development and (ii) lower net investment income, partially offset by (iii) higher underlying underwriting margins. Net favorable prior year reserve development in the first nine months of 2015 and 2014 was $178 million and $270 million, respectively. Catastrophe losses in the first nine months of 2015 and 2014 were $3 million and $6 million, respectively. The higher underlying underwriting margins primarily resulted from lower loss estimates in certain management liability businesses. Partially offsetting this net pretax decrease in operating income was a related decrease in income tax expense. Income tax expense in the first nine months of 2015 was also reduced by $16 million as a result of the resolution of prior year tax matters in the second quarter of 2015.

Revenues

Earned Premiums

Earned premiums in the third quarter of 2015 were $539 million, $12 million or 2% higher than in the same period of 2014. Earned premiums in the first nine months of 2015 were $1.57 billion, $13 million or 1% higher than in the same period of 2014.

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Net Investment Income

Net investment income in the third quarter of 2015 was $56 million, $8 million or 13% lower than in the same period of 2014. Net investment income in the first nine months of 2015 was $169 million, $23 million or 12% lower than in the same period of 2014. Refer to the Net Investment Income section of Consolidated Results of Operations herein for a discussion of the decreases in the Company s consolidated net investment income in the third quarter and first nine months of 2015 as compared with the same periods of 2014. In addition, refer to note 2 of notes to the Company s consolidated financial statements in the Company s 2014 Annual Report for a discussion of the Company s net investment income allocation methodology.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in the third quarter of 2015 were $113 million, $39 million or 26% lower than in the same period of 2014, primarily reflecting (i) an increase in net favorable prior year reserve development and (ii) the impact of a re-estimation of current accident year losses in certain management liability businesses. Net favorable prior year reserve development in the third quarter of 2015 was primarily driven by better than expected loss experience in the contract surety and fidelity product lines for accident years 2008 through 2013, which was partially driven by a reduction in outstanding exposures related to the financial crisis that commenced in 2007. In the third quarter of 2014, net favorable prior year reserve development was primarily driven by better than expected loss experience in the contract surety product line for accident years 2009 through 2011.

Claims and claim adjustment expenses in the first nine months of 2015 were $497 million, $76 million or 18% higher than in the same period of 2014, primarily reflecting (i) a decrease in net favorable prior year reserve development, partially offset by (ii) lower loss estimates in certain management liability businesses. Net favorable prior year reserve development in the first nine months of 2015 was primarily driven by the same factors discussed above for the third quarter of 2015. In the first nine months of 2014, net favorable prior year reserve development was primarily driven by better than expected loss experience in the contract surety product line for accident years 2007 through 2011.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in the third quarter of 2015 was $104 million, $3 million or 3% higher than in the same period of 2014. Amortization of deferred acquisition costs in the first nine months of 2015 was $295 million, $6 million or 2% higher than in the same period of 2014.

General and Administrative Expenses

General and administrative expenses in the third quarter of 2015 were $93 million, $8 million or 8% lower than in the same period of 2014. General and administrative expenses in the first nine months of 2015 were $292 million, $8 million or 3% lower than in the same period of 2014. The decreases in both periods of 2015 reflected the impact of certain customer-related intangible assets which became fully amortized during the second quarter of 2015.

Income Tax Expense

Income tax expense in the third quarter of 2015 was $93 million, $16 million or 21% higher than in the same period of 2014, primarily reflecting the $47 million increase in pretax operating income. Income tax expense in the first nine months of 2015 was $195 million, $45 million or 19% lower than in the same period of 2014, primarily reflecting the $85 million decrease in pretax operating income and the $16 million reduction in income tax expense in the second quarter of 2015 resulting from the resolution of prior year tax matters.

Combined Ratio

The combined ratio of 57.1% in the third quarter of 2015 was 9.8 points lower than the combined ratio of 66.9% in the same period of 2014. The combined ratio of 68.8% in the first nine months of 2015 was 4.2 points higher than the combined ratio of 64.6% in the same period of 2014.

The loss and loss adjustment expense ratio of 20.6% in the third quarter of 2015 was 8.1 points lower than the loss and loss adjustment expense ratio of 28.7% in the same period of 2014. Net favorable prior year reserve development in the third quarters of 2015 and 2014 provided 19.1 points and 15.0 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in the third quarters of 2015 and 2014 accounted for 0.1 points and 0.2 points, respectively,

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of the loss and loss adjustment expense ratio. The 2015 third quarter underlying loss and loss adjustment expense ratio was 3.9 points lower than the 2014 ratio on the same basis, primarily reflecting a re-estimation of current accident year losses in certain management liability businesses.

The loss and loss adjustment expense ratio of 31.3% in the first nine months of 2015 was 4.6 points higher than the loss and loss adjustment expense ratio of 26.7% in the same period of 2014. Net favorable prior year reserve development in the first nine months of 2015 and 2014 provided 11.4 points and 17.4 points of benefit, respectively, to the loss and loss adjustment expense ratio. Catastrophe losses in the first nine months of 2015 and 2014 accounted for 0.2 points and 0.5 points, respectively, of the loss and loss adjustment expense ratio. The underlying loss and loss adjustment expense ratio in the first nine months of 2015 was 1.1 points lower than the 2014 ratio on the same basis, primarily reflecting lower loss estimates in certain management liability businesses.

The underwriting expense ratio of 36.5% in the third quarter of 2015 was 1.7 points lower than the underwriting expense ratio of 38.2% in the same period of 2014. In the first nine months of 2015, the underwriting expense ratio of 37.5% was 0.4 points lower than the underwriting expense ratio of 37.9% in the same period of 2014. The decreases in both periods of 2015 reflected the impact of lower general and administrative expenses discussed above.

Written Premiums

The Bond & Specialty Insurance segment s gross and net written premiums were as follows:

	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Bond & Specialty Insurance	**$ 580**	$ 562	**$ 1,639**	$ 1,632

	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Bond & Specialty Insurance	**$ 565**	$ 556	**$ 1,577**	$ 1,578

Gross and net written premiums in the third quarter of 2015 increased by 3% and 2%, respectively, over the same period of 2014. Gross and net written premiums in the first nine months of 2015 were comparable to the same period of 2014. Excluding the surety line of business, for which the following are not relevant measures, business retention rates in the third quarter and first nine months of 2015 remained strong and were higher than in the same periods of 2014. Renewal premium changes in the third quarter and first nine months of 2015 remained positive, but were lower than in the same periods of 2014. New business premiums in the third quarter and first nine months of 2015 increased over the same periods of 2014.

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Personal Insurance

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

(dollars in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenues				
Earned premiums	**$ 1,840**	$ 1,796	**$ 5,402**	$ 5,331
Net investment income	**87**	98	**257**	292
Other revenues	**9**	19	**33**	62
Total revenues	**$ 1,936**	$ 1,913	**$ 5,692**	$ 5,685
Total claims and expenses	**$ 1,582**	$ 1,565	**$ 4,725**	$ 4,847
Operating income	**$ 241**	$ 239	**$ 667**	$ 582
Loss and loss adjustment expense ratio	**56.5%**	56.0%	**58.0%**	60.9%
Underwriting expense ratio	**28.6**	30.1	**28.6**	28.9
Combined ratio	**85.1%**	86.1%	**86.6%**	89.8%
Incremental impact of direct to consumer initiative on combined ratio	**1.9%**	1.9%	**1.8%**	1.7%

Overview

Operating income in the third quarter of 2015 was $241 million, $2 million or 1% higher than operating income of $239 million in the same period of 2014. This increase primarily reflected the pretax impacts of (i) higher net favorable prior year reserve development and (ii) lower catastrophe losses, largely offset by (iii) lower underlying underwriting margins, (iv) lower net investment income and (v) a decline in other revenues. Net favorable prior year reserve development in the third quarters of 2015 and 2014 was $47 million and $13 million, respectively. Catastrophe losses in the third quarters of 2015 and 2014 were $45 million and $51 million, respectively. The lower underlying underwriting margins primarily resulted from higher non-weather-related losses in the Homeowners and Other product line. Partially offsetting this net pretax increase in operating income was a related increase in income tax expense.

Operating income in the first nine months of 2015 was $667 million, $85 million or 15% higher than operating income of $582 million in the same period of 2014. This increase primarily reflected the pretax impacts of (i) lower catastrophe losses, (ii) higher net favorable prior year reserve development and (iii) higher underlying underwriting margins, partially offset by (iv) lower net investment income and (v) a decline in other revenues. Catastrophe losses in the first nine months of 2015 were $219 million, compared with $306 million in the same period of 2014. Net favorable prior year reserve development in the first nine months of 2015 was $242 million, compared with $157 million in the same period of 2014. The higher underlying underwriting margins primarily resulted from lower non-catastrophe weather-related losses in the Homeowners and Other product line. Partially offsetting this net pretax increase in operating income was a related increase in income tax expense. Income tax expense in the first nine months of 2015 was reduced by $4 million as a result of the resolution of prior year tax matters in the second quarter of 2015.

Revenues

Earned Premiums

Earned premiums in the third quarter of 2015 were $1.84 billion, $44 million or 2% higher than in the same period of 2014. Earned premiums in the first nine months of 2015 were $5.40 billion, $71 million or 1% higher than in the same period of 2014.

Net Investment Income

Net investment income in the third quarter of 2015 was $87 million, $11 million or 11% lower than in the same period of 2014. Net investment income in the first nine months of 2015 was $257 million, $35 million or 12% lower than in the same

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period of 2014. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the decreases in the Company s consolidated net investment income in the third quarter and first nine months of 2015 compared with the same periods of 2014. In addition, refer to note 2 of notes to the Company s consolidated financial statements in the Company s 2014 Annual Report for a discussion of the Company s net investment income allocation methodology.

Other Revenues

Other revenues in the third quarters and first nine months of 2015 and 2014 primarily consisted of installment premium charges. The third quarter and first nine months of 2014 also included revenues associated with the runoff of the Company s National Flood Insurance Program business that was sold on a renewal rights basis in 2013.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in the third quarter of 2015 were $1.04 billion, $32 million or 3% higher than in the same period of 2014. The increase primarily reflected (i) higher volumes of insured exposures, (ii) the impact of loss cost trends and (iii) higher non-weather-related losses in the Homeowners and Other product line, partially offset by (iv) higher net favorable prior year reserve development and (v) lower catastrophe losses. Net favorable prior year reserve development in the third quarter of 2015 was primarily driven by (i) better than expected loss experience in the Homeowners and Other product line for liability coverages for accident years 2013 and 2014 and (ii) better than expected loss experience in the Automobile product line for liability coverages for accident years 2012 through 2014. Net favorable prior year reserve development in the third quarter of 2014 was primarily driven by better than expected loss experience in the Homeowners and Other product line for catastrophe losses for accident years 2011 through 2013.

Claims and claim adjustment expenses in the first nine months of 2015 were $3.13 billion, $117 million or 4% lower than in the same period of 2014, primarily reflecting (i) lower catastrophe losses and (ii) higher net favorable prior year reserve development and (iii) lower non-catastrophe weather-related losses in the Homeowners and Other product line, partially offset by (iv) the impact of loss cost trends and (v) higher volumes of insured exposures. Net favorable prior year reserve development in the first nine months of 2015 was primarily driven by (i) better than expected loss experience in the Homeowners and Other product line for liability coverages for accident years 2011 through 2014, for non-catastrophe weather-related losses for accident years 2013 and 2014 and for non-weather-related losses for accident year 2014 and (ii) better than expected loss experience in the Automobile product line for liability coverages for accident years 2010 through 2014. Net favorable prior year reserve development in the first nine months of 2014 was primarily driven by better than expected loss experience in the Homeowners and Other product line for non-catastrophe weather-related losses for accident year 2013 and for catastrophe losses for accident years 2011 through 2013.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs in the third quarter of 2015 was $294 million, was comparable to the same period of 2014. Amortization of deferred acquisition costs in the first nine months of 2015 was $867 million, $9 million or 1% lower than in the same period of 2014.

General and Administrative Expenses

General and administrative expenses in the third quarter of 2015 were $248 million, $15 million or 6% lower than in the same period of 2014, primarily due to higher contingent commission expenses in the third quarter of 2014 due to timing. General and administrative expenses in the first nine months of 2015 were $727 million, $4 million or 1% higher than in the same period of 2014.

Income Tax Expense

Income tax expense in the third quarter of 2015 was $113 million, $4 million or 4% higher than in the same period of 2014, primarily reflecting the $6 million increase in pretax operating income. Income tax expense in the first nine months of 2015 was $300 million, $44 million or 17% higher than in the same period of 2014, primarily reflecting the $129 million increase in pretax operating income, partially offset by the $4 million reduction in income tax expense in the second quarter of 2015 resulting from the resolution of prior year tax matters.

Combined Ratio

The combined ratio of 85.1% in the third quarter of 2015 was 1.0 points lower than the combined ratio of 86.1% in the same period of 2014. The combined ratio of 86.6% in the first nine months of 2015 was 3.2 points lower than the combined ratio of 89.8% in the same period of 2014.

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The loss and loss adjustment expense ratio of 56.5% in the third quarter of 2015 was 0.5 points higher than the loss and loss adjustment expense ratio of 56.0% in the same period of 2014. Catastrophe losses accounted for 2.5 points and 2.8 points of the loss and loss adjustment expense ratios in the third quarters of 2015 and 2014, respectively. Net favorable prior year reserve development in the third quarters of 2015 and 2014 provided 2.6 points and 0.7 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2015 third quarter underlying loss and loss adjustment expense ratio was 2.7 points higher than the 2014 ratio on the same basis, primarily reflecting higher non-weather-related losses in the Homeowners and Other product line.

The loss and loss adjustment expense ratio of 58.0% in the first nine months of 2015 was 2.9 points lower than the loss and loss adjustment expense ratio of 60.9% in the same period of 2014. Catastrophe losses accounted for 4.1 points and 5.6 points of the loss and loss adjustment expense ratios in the first nine months of 2015 and 2014, respectively. Net favorable prior year reserve development in the first nine months of 2015 and 2014 provided 4.5 points and 2.9 points of benefit, respectively, to the loss and loss adjustment expense ratio. The 2015 underlying loss and loss adjustment expense ratio in the first nine months of 2015 was 0.2 points higher than the 2014 ratio on the same basis.

The underwriting expense ratio of 28.6% for the third quarter of 2015 was 1.5 points lower than the underwriting expense ratio of 30.1% in the same period of 2014, primarily reflecting lower commission expenses. In the first nine months of 2015, the underwriting expense ratio of 28.6% was 0.3 points lower than the underwriting expense ratio of 28.9% in the same 2014 period.

Agency Written Premiums

Personal Insurance s gross and net written premiums by product line were as follows for its Agency business, which comprises business written through agents, brokers and other intermediaries and represents almost all of the Personal Insurance segment s gross and net written premiums:

	Gross Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Agency Automobile	**$ 938**	$ 852	**$ 2,659**	$ 2,481
Agency Homeowners and Other	**1,052**	1,055	**2,876**	2,902
Total Agency Personal Insurance	**$ 1,990**	$ 1,907	**$ 5,535**	$ 5,383

	Net Written Premiums			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	**2014**	**2015**	**2014**
Agency Automobile	**$ 934**	$ 849	**$ 2,646**	$ 2,468
Agency Homeowners and Other	**1,035**	1,017	**2,793**	2,821
Total Agency Personal Insurance	**$ 1,969**	$ 1,866	**$ 5,439**	$ 5,289

In the third quarter and first nine months of 2015, agency gross written premiums were 4% and 3% higher than in the respective periods of 2014. In the third quarter and first nine months of 2015, agency net written premiums were 6% and 3% higher than in the respective periods of 2014. The higher rate of increase in agency net written premiums compared to the rate of increase in agency gross written premiums for the third quarter of 2015 primarily reflected the impact of changes in the timing and structure of certain of the Company s corporate catastrophe reinsurance treaties in the first quarter of 2015.

In the third quarter and first nine months of 2015, net written premiums in the Agency Automobile line of business were 10% and 7% higher, respectively, than in the same periods of 2014. Business retention rates in the third quarter and first nine months of 2015 remained strong and were higher than in the respective periods of 2014. Renewal premium changes in the third quarter and first nine months of 2015 remained positive but were lower than in the same periods of 2014. New business premiums in the third quarter and first nine months of 2015 increased over the same periods of 2014 driven by sales of the Company s private passenger automobile product, Quantum Auto 2.0.

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In the third quarter and first nine months of 2015, net written premiums in the Agency Homeowners and Other line of business were 2% higher and 1% lower, respectively, than in the same periods of 2014. The increase in agency net written premiums for the third quarter of 2015 included the impact of changes in the timing and structure of certain of the Company s corporate catastrophe reinsurance treaties in the first quarter of 2015. Business retention rates in the third quarter and first nine months of 2015 remained strong and were slightly higher than in the respective periods of 2014. Renewal premium changes in the third quarter and first nine months of 2015 remained positive but were lower than in the respective periods of 2014. New business premiums in the third quarter and first nine months of 2015 increased over the same periods of 2014.

For its Agency business, the Personal Insurance segment had approximately 6.1 million active policies at both September 30, 2015 and 2014.

Direct to Consumer Written Premiums

In the direct to consumer business, net written premiums in the third quarter and first nine months of 2015 were $67 million and $175 million, respectively, compared with $51 million and $140 million in the respective periods of 2014. In the third quarter and first nine months of 2015, automobile net written premiums increased by $11 million and $25 million, respectively, or 31% and 26%, respectively, over the same periods of 2014. In the third quarter and first nine months of 2015, homeowners and other net written premiums increased $5 million and $10 million, respectively, or 33% and 24%, respectively, over the same periods of 2014. The direct to consumer business had 229,000 and 185,000 active policies at September 30, 2015 and 2014, respectively.

Interest Expense and Other

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in millions)	**2015**	**2014**	**2015**	**2014**
Operating loss	**$ (65)**	$ (63)	**$ (191)**	$ (192)

The operating loss for Interest Expense and Other in the third quarter of 2015 was $65 million, compared with $63 million in the same period of 2014. The operating loss for Interest Expense and Other in the first nine months of 2015 was $191 million, compared with $192 million in the same period of 2014. After-tax interest expense in the third quarter and first nine months of 2015 was $61 million and $181 million, respectively, compared with $60 million and $180 million, respectively, in the same periods of 2014.

ASBESTOS CLAIMS AND LITIGATION

The Company believes that the property and casualty insurance industry has suffered from court decisions and other trends that have expanded insurance coverage for asbestos claims far beyond the original intent of insurers and policyholders. The Company has received and continues to receive a significant number of asbestos claims from the Company s policyholders (which includes others seeking coverage under a policy). Factors underlying these claim filings include continued intensive advertising by lawyers seeking asbestos claimants and the continued focus by plaintiffs on defendants who were not traditionally primary targets of asbestos litigation. The focus on these defendants is primarily the result of the number of traditional asbestos defendants who have sought bankruptcy protection in previous years. In addition to contributing to the overall number of claims, bankruptcy proceedings may increase the volatility of asbestos-related losses by initially delaying the reporting of claims and later by significantly accelerating and increasing loss payments by insurers, including the Company. The bankruptcy of many traditional defendants has also caused increased settlement demands against those policyholders who are not in bankruptcy but remain in the tort system. Currently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket. Prioritizing claims involving credible evidence of injuries, along with the focus on defendants who were not traditionally primary targets of asbestos litigation, contributes to the claims and claim adjustment expense payment patterns experienced by the Company. The Company s asbestos-related claims and claim adjustment expense experience also has been impacted by the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers.

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

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

In addition to claims against policyholders, proceedings have been launched directly against insurers, including the Company, by individuals challenging insurers conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos-related bodily injuries. Travelers Property Casualty Corp. (TPC) had previously entered into settlement agreements in connection with a number of these direct action claims (Direct Action Settlements). The Company had been involved in litigation concerning whether all of the conditions of the Direct Action Settlements had been satisfied. On July 22, 2014, the United States Court of Appeals for the Second Circuit ruled that all of the conditions of the Direct Action Settlements had been satisfied. On January 15, 2015, the bankruptcy court entered an order directing the Company to pay $579 million to the plaintiffs, comprised of the $502 million settlement amounts, plus pre- and post-judgment interest of $77 million, and the Company has made that payment. For a full discussion of these settlement agreements and related litigation, see the Settlement of Asbestos Direct Action Litigation sections of note 12 of notes to the unaudited consolidated financial statements herein and note 16 of notes to the consolidated financial statements in the Company s 2014 Annual Report. It is possible that the filing of other direct actions against insurers, including the Company, could be made in the future. It is difficult to predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability. The Company believes it has meritorious defenses to these claims and has received favorable rulings in certain jurisdictions.

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

In the third quarter of 2015, the Company completed its annual in-depth asbestos claim review, including a review of active policyholders and litigation cases for potential product and non-product liability, and noted the continuation of the following trends:

- continued high level of litigation activity in certain jurisdictions involving individuals alleging serious asbestos-related illness, primarily involving mesothelioma claims;
- while overall payment patterns have been generally stable, there has been an increase in severity for certain policyholders due to the continued high level of litigation activity; and
- continued moderate level of asbestos-related bankruptcy activity.

While the Company believes that over the past several years there has been a reduction in the volatility associated with the Company s overall asbestos exposure, there nonetheless remains a high degree of uncertainty with respect to future exposure from asbestos claims.

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In the Home Office and Field Office categories, which account for the vast majority of policyholders with active asbestos-related claims, both the number of policyholders with open asbestos claims and net asbestos-related payments were essentially unchanged in the first nine months of 2015 when compared with the same period of 2014. Payments on behalf of policyholders in these categories continue to be influenced by the high level of litigation activity in a limited number of jurisdictions where individuals alleging serious asbestos-related injury continue to target defendants who were not traditionally primary targets of asbestos litigation.

The Company s quarterly asbestos reserve reviews include an analysis of exposure and claim payment patterns by policyholder category, as well as recent settlements, policyholder bankruptcies, judicial rulings and legislative actions. The Company also analyzes developing payment patterns among policyholders in the Home Office, Field Office and Assumed Reinsurance and Other categories as well as projected reinsurance billings and recoveries. In addition, the Company reviews its historical gross and net loss and expense paid experience, year-by-year, to assess any emerging trends, fluctuations, or characteristics suggested by the aggregate paid activity. Conventional actuarial methods are not utilized to establish asbestos reserves nor have the Company s evaluations resulted in any way of determining a meaningful average asbestos defense or indemnity payment.

The completion of these reviews and analyses in the third quarters of 2015 and 2014 resulted in $224 million and $250 million increases, respectively, in the Company s net asbestos reserves. In both 2015 and 2014, the reserve increases were primarily driven by increases in the Company s estimate of projected settlement and defense costs related to a broad number of policyholders in the Home Office category due to a higher level of litigation activity surrounding mesothelioma claims than previously anticipated. The increase in the estimate of projected settlement and defense costs resulted from payment trends that continue to be higher than previously anticipated due to the impact of the current litigation environment discussed above. Notwithstanding these trends, the Company s overall view of the underlying asbestos environment is essentially unchanged from recent periods and there remains a high degree of uncertainty with respect to future exposure to asbestos claims.

Net asbestos paid loss and loss expenses in the first nine months of 2015 were $684 million, compared with $154 million in the same period of 2014. Net payments in the first nine months of 2015 included the payment of the $502 million settlement amounts related to the Settlement of Asbestos Direct Action Litigation as described in more detail in note 12 of notes to the unaudited consolidated financial statements herein. Net asbestos reserves were $1.90 billion at September 30, 2015, compared with $2.45 billion at September 30, 2014.

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

(at and for the nine months ended September 30, in millions)	2015	2014
Beginning reserves:		
Gross	$ 2,520	$ 2,606
Ceded	(163)	(256)
Net	2,357	2,350
Incurred losses and loss expenses:		
Gross	313	258
Ceded	(89)	(8)
Net	224	250
Paid loss and loss expenses:		
Gross	747	198
Ceded	(63)	(44)
Net	684	154
Foreign exchange and other:		
Gross		(1)
Ceded	(1)	
Net	(1)	(1)
Ending reserves:		
Gross	2,086	2,665
Ceded	(190)	(220)
Net	$ 1,896	$ 2,445

See Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.

ENVIRONMENTAL CLAIMS AND LITIGATION

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

The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to environmental claims. The Company believes that some court decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions often pertain to insurance policies that were issued by the Company prior to the mid-1980s. These decisions continue to be inconsistent and vary from jurisdiction to jurisdiction. Environmental claims, when submitted, rarely indicate the monetary amount being sought by the claimant from the policyholder, and the Company does not keep track of the monetary amount being sought in those few claims which indicate a monetary amount.

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

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

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

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

The Company continues to receive notices from policyholders tendering claims for the first time, frequently under policies issued prior to the mid-1980s. These policyholders continue to present smaller exposures, have fewer sites and are lower tier defendants. Further, in many instances, clean-up costs have been reduced because regulatory agencies are willing to accept risk-based site analyses and more efficient clean-up technologies. Over the past several years, the Company has experienced generally favorable trends in the number of new policyholders tendering environmental claims for the first time and in the number of pending declaratory judgment actions relating to environmental matters. However, the degree to which those favorable trends have continued has been less than anticipated. In addition, reserve development on existing environmental claims has been greater than anticipated. As a result of these factors, the Company increased its net environmental reserves by $72 million and $87 million in the second quarters of 2015 and 2014, respectively.

Net environmental paid loss and loss expenses in the first nine months of 2015 were $38 million, compared with $66 million in the same period of 2014. At September 30, 2015, approximately 93% of the net environmental reserve (approximately $352 million) was carried in a bulk reserve and included unresolved environmental claims, incurred but not reported environmental claims and the anticipated cost of coverage litigation disputes relating to these claims. The bulk reserve the Company carries is established and adjusted based upon the aggregate volume of in-process environmental claims and the Company s experience in resolving those claims. The balance, approximately 7% of the net environmental reserve (approximately $26 million), consists of case reserves.

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

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(at and for the nine months ended September 30, in millions)	2015	2014
Beginning reserves:		
Gross	$ 353	$ 355
Ceded	(7)	(11)
Net	346	344
Incurred losses and loss expenses:		
Gross	81	94
Ceded	(9)	(7)
Net	72	87
Paid loss and loss expenses:		
Gross	39	73
Ceded	(1)	(7)
Net	38	66
Foreign exchange and other:		
Gross	(2)	(1)
Ceded		
Net	(2)	(1)
Ending reserves:		
Gross	393	375
Ceded	(15)	(11)
Net	$ 378	$ 364

UNCERTAINTY REGARDING ADEQUACY OF ASBESTOS AND ENVIRONMENTAL RESERVES

As a result of the processes and procedures discussed above, management believes that the reserves carried for asbestos and environmental claims are appropriately established based upon known facts, current law and management s judgment. However, the uncertainties surrounding the final resolution of these claims continue, and it is difficult to determine the ultimate exposure for asbestos and environmental claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in complex litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in the cost to resolve, and/or the number of, asbestos and environmental claims beyond that which is anticipated, the emergence of a greater number of asbestos claims than anticipated as a result of extended life expectancies resulting from medical advances and lifestyle improvements, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of disputes pertaining to the amount of available coverage for asbestos and environmental claims in a manner inconsistent with the Company s previous assessment of these claims, the number and outcome of direct actions against the Company, future developments pertaining to the Company s ability to recover reinsurance for asbestos and environmental claims and the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers. In addition, uncertainties arise from the insolvency or bankruptcy of policyholders and other defendants. It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development of asbestos and environmental claims. This environment could be affected by changes in applicable legislation and future court and regulatory decisions and interpretations, including the outcome of legal challenges to legislative and/or judicial reforms establishing medical criteria for the pursuit of asbestos claims. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos and environmental reserves, the Company continues to study the implications of these and other developments.

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

INVESTMENT PORTFOLIO

The Company s invested assets at September 30, 2015 were $72.06 billion, of which 93% was invested in fixed maturity and short-term investments, 1% in equity securities, 1% in real estate investments and 5% in other investments. Because the primary purpose of the investment portfolio is to fund future claims payments, the Company employs a conservative investment philosophy. A significant majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

The carrying value of the Company s fixed maturity portfolio at September 30, 2015 was $61.67 billion. The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company s insurance and debt obligations. The weighted average credit quality of the Company s fixed maturity portfolio, both including and excluding U.S. Treasury securities, was Aa2 at both September 30, 2015 and December 31, 2014. Below investment grade securities represented 2.9% and 3.0% of the total fixed maturity investment portfolio at September 30, 2015 and December 31, 2014, respectively. The average effective duration of fixed maturities and short-term securities was 4.0 (4.3 excluding short-term securities) at September 30, 2015 and 3.5 (3.7 excluding short-term securities) at December 31, 2014.

Obligations of States, Municipalities and Political Subdivisions

The Company s fixed maturity investment portfolio at September 30, 2015 and December 31, 2014 included $31.63 billion and $33.57 billion, respectively, of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). The municipal bond portfolio is diversified across the United States, the District of Columbia and Puerto Rico and includes general obligation and revenue bonds issued by states, cities, counties, school districts and similar issuers. Included in the municipal bond portfolio at September 30, 2015 and December 31, 2014 were $6.59 billion and $7.56 billion, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities, which were created to satisfy their responsibility for payments of principal and interest. The irrevocable trusts are verified as to their sufficiency by an independent verification agent of the underwriter, issuer or trustee. All of the Company s holdings of securities issued by Puerto Rico and related entities have been pre-refunded and therefore are defeased by U.S. Treasury securities.

The Company bases its investment decision on the underlying credit characteristics of the municipal security. While its municipal bond portfolio includes a number of securities that were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default, the Company does not rely on enhanced credit characteristics provided by such third-party insurance as part of its investing decisions. Of the insured municipal securities in the Company s investment portfolio at September 30, 2015, 100% were rated at A3 or above, and approximately 87% were rated at Aa3 or above, without the benefit of insurance. The Company believes that a loss of the benefit of insurance would not result in a material adverse impact on the Company s results of operations, financial position or liquidity, due to the underlying credit strength of the issuers of the securities, as well as the Company s ability and intent to hold the securities. The average credit rating of the underlying issuers of these securities was Aa2 at September 30, 2015. The average credit rating of the entire municipal bond portfolio was Aa1 at September 30, 2015 with and without the enhancement provided by third-party insurance.

Mortgage-Backed Securities, Collateralized Mortgage Obligations and Pass-Through Securities

The Company s fixed maturity investment portfolio at September 30, 2015 and December 31, 2014 included $2.01 billion and $2.21 billion, respectively, of residential mortgage-backed securities, including pass-through-securities and collateralized mortgage obligations (CMOs), all of which are subject to prepayment risk (either shortening or lengthening of duration).

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While prepayment risk for securities and its effect on income cannot be fully controlled, particularly when interest rates move dramatically, the Company s investment strategy generally favors securities that reduce this risk within expected interest rate ranges. Included in the totals at September 30, 2015 and December 31, 2014 were $720 million and $872 million, respectively, of GNMA, FNMA, FHLMC (excluding FHA project loans) and Canadian government guaranteed residential mortgage-backed pass-through securities classified as available for sale. Also included in those totals were residential CMOs classified as available for sale with a fair value of $1.29 billion and $1.34 billion at September 30, 2015 and December 31, 2014, respectively. Approximately 45% and 46% of the Company s CMO holdings at September 30, 2015 and December 31, 2014, respectively, were guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC. The average credit rating of the $712 million and $725 million of non-guaranteed CMO holdings at September 30, 2015 and December 31, 2014 was Baa2 and Ba1, respectively. The average credit rating of all of the above securities was Aa3 at both September 30, 2015 and December 31, 2014. For further discussion regarding the Company s investments in residential CMOs, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Investment Portfolio in the Company s 2014 Annual Report.

Alternative Documentation Mortgages and Sub-Prime Mortgages

At September 30, 2015 and December 31, 2014, the Company s fixed maturity investment portfolio included CMOs backed by alternative documentation mortgages and asset-backed securities collateralized by sub-prime mortgages with a collective fair value of $201 million and $252 million, respectively (comprising less than 1% of the Company s total fixed maturity investments at both dates). The Company defines sub-prime mortgage-backed securities as investments in which the underlying loans primarily exhibit one or more of the following characteristics: low FICO scores, above-prime interest rates, high loan-to-value ratios or high debt-to-income ratios. Alternative documentation securitizations are those in which the underlying loans primarily meet the government-sponsored entities requirements for credit score but do not meet the government-sponsored entities guidelines for documentation, property type, debt and loan-to-value ratios. The average credit rating on these securities and obligations held by the Company was Ba2 at both September 30, 2015 and December 31, 2014. The Company does not believe this portfolio exposes it to a material adverse impact on its results of operations, financial position or liquidity, due to the portfolio s relatively small size.

Commercial Mortgage-Backed Securities and Project Loans

At September 30, 2015 and December 31, 2014, the Company held commercial mortgage-backed securities (including FHA project loans) of $880 million and $715 million, respectively. The average credit rating on these securities held by the Company was Aaa at both September 30, 2015 and December 31, 2014. The Company does not believe this portfolio exposes it to a material adverse impact on its results of operations, financial position or liquidity, due to the portfolio s relatively small size and the underlying credit strength of these securities.

Equity Securities, Real Estate Investments and Short-Term Investments

See note 1 of notes to the consolidated financial statements in the Company s 2014 Annual Report for further information about these invested asset classes.

Other Investments

The Company also invests in private equity limited partnerships, hedge funds, and real estate partnerships. Also included in other investments are non-public common and preferred equities, trading securities and derivatives. These asset classes have historically provided a higher return than fixed maturities but are subject to more volatility. At September 30, 2015 and December 31, 2014, the carrying value of the Company s other investments was $3.53 billion and $3.59 billion, respectively.

CATASTROPHE REINSURANCE COVERAGE

There have been no material changes to the Company s catastrophe reinsurance coverage from that reported in the Reinsurance section of Part I Item 1 Business of the Annual Report on Form 10-K for the year ended December 31, 2014, except for those changes discussed in the Catastrophe Reinsurance Coverage section of Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015. The Company regularly reviews its catastrophe reinsurance coverage and may adjust such coverage in the future.

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REINSURANCE RECOVERABLES

For a description of the Company s reinsurance recoverables, refer to Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Reinsurance Recoverables in the Company s 2014 Annual Report.

The following table summarizes the composition of the Company s reinsurance recoverables:

(in millions)	September 30, 2015	December 31, 2014
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	**$ 4,013**	$ 4,270
Allowance for uncollectible reinsurance	**(161)**	(203)
Net reinsurance recoverables	**3,852**	4,067
Mandatory pools and associations	**1,943**	1,909
Structured settlements	**3,154**	3,284
Total reinsurance recoverables	**$ 8,949**	$ 9,260

The $215 million decline in net reinsurance recoverables from December 31, 2014 primarily reflected the impact of cash collections in the first nine months of 2015.

OUTLOOK

The following discussion provides outlook information for certain key drivers of the Company s results of operations and capital position.

Premiums. The Company s earned premiums are a function of net written premium volume. Net written premiums comprise both renewal business and new business and are recognized as earned premium over the life of the underlying policies. When business renews, the amount of net written premiums associated with that business may increase or decrease (renewal premium change) as a result of increases or decreases in rate and/or insured exposures, which the Company considers as a measure of units of exposure (such as the number and value of vehicles or properties insured). Net written premiums from both renewal and new business, and therefore earned premiums, are impacted by competitive market conditions as well as general economic conditions, which, particularly in the case of the Business and International Insurance segment, affect audit premium adjustments, policy endorsements and mid-term cancellations. Property and casualty insurance market conditions are expected to remain competitive. Net written premiums may also be impacted by the structure of reinsurance programs and related costs, as well as changes in foreign currency exchange rates.

Overall, the Company expects retention levels (the amount of expiring premium that renews, before the impact of renewal premium changes) will remain historically strong. In the Business and International Insurance segment, the Company expects that Domestic renewal premium changes during the remainder of 2015 and into 2016 will remain positive and will be slightly lower than the levels attained in the first nine months of 2015. Also in this segment, the Company expects that International renewal premium changes during the remainder of 2015 and into 2016 will remain positive and will be broadly consistent with the levels attained in the first nine months of 2015. In the Bond & Specialty Insurance segment, the Company expects that renewal premium changes with respect to management liability business during the remainder of 2015 and into 2016 will remain positive, but will be lower than the levels attained in the first nine months of 2015. With respect to surety business, within the Bond & Specialty Insurance segment, the Company expects net written premium volume during the remainder of 2015 and into 2016 will be broadly consistent with the levels attained in the same periods of 2014 and 2015.

In the Personal Insurance segment, the Company expects that both Agency Automobile and Agency Homeowners and Other renewal premium changes during the remainder of 2015 and into 2016 will remain positive, but will be lower than the levels attained in the first nine months of 2015. The need for state regulatory approval for changes to personal property and casualty insurance prices, as well as competitive market conditions, may impact the timing and extent of renewal premium changes.

Property and casualty insurance market conditions are expected to remain competitive during the remainder of 2015 and into 2016 for new business, not only in Business and International Insurance and Bond & Specialty Insurance, but especially in Personal Insurance, where price comparison technology used by agents and brokers, sometimes referred to as comparative raters, has facilitated the process of generating multiple quotes, thereby increasing price comparison on new business and, increasingly, on renewal business. The Company expects that its Quantum Auto 2.0 product in the Personal Insurance segment s Agency Automobile line of business will continue to increase new business premiums during the remainder of 2015 and into 2016 compared with the levels attained in the same periods of 2014 and 2015, although at a lower rate of increase than in recent periods. The Company also expects that, as a result of strong business retentions and increases in new business, policies in force in the Personal Insurance segment s Agency Automobile line of business will continue to increase during the remainder of 2015 and into 2016 compared with the number of policies in force at September 30, 2015. Policies in force in the Personal Insurance segment s Homeowners and Other line of business are expected to increase into 2016 compared with the number of policies in force at September 30, 2015. In each of the Company s business segments, new business generally has less of an impact on underwriting profitability than renewal business, given the volume of new business relative to renewal business. However, in periods of meaningful increases in new business, despite its positive impact on underwriting gains over time, the impact of a higher mix of new business versus renewal business may negatively impact the combined ratio in the short-term.

In recent years, the federal government, particularly the Federal Reserve, has taken extraordinary steps to stabilize financial markets, encourage economic growth and keep interest rates low. During this time, the United States has experienced a slow rate of growth that has shown some signs of improvement in recent periods. Even if economic growth continues in the United States, or other regions in which the Company does business, it may be at a slow or slower rate for an extended period of time. Further, general uncertainty regarding a variety of domestic and international matters, such as the U.S. Federal budget and taxes, implementation of the Affordable Care Act, the regulatory environment, geopolitical instability and economic uncertainty in various parts of the world, rapid changes in commodity prices, such as recent changes in oil prices, and fluctuations in foreign currency exchange rates has added to the uncertainty regarding economic conditions generally. If economic conditions deteriorate, the resulting low levels of economic activity could impact exposure changes at renewal and the Company s ability to write business at acceptable rates. Additionally, low levels of economic activity could adversely impact audit premium adjustments, policy endorsements and mid-term cancellations after policies are written. All of the foregoing, in turn, could adversely impact net written premiums during the remainder of 2015 and into 2016, and because earned premiums are a function of net written premiums, earned premiums could be adversely impacted during the remainder of 2015 and into 2016.

Underwriting Gain/Loss. The Company s underwriting gain/loss can be significantly impacted by catastrophe losses and net favorable or unfavorable prior year reserve development, as well as underlying underwriting margins.

Catastrophe and other weather-related losses are inherently unpredictable from period to period. The Company experienced significant catastrophe and other weather-related losses in a number of recent periods, which adversely impacted its results of operations. The Company s results of operations could be adversely impacted if significant catastrophe and other weather-related losses were to occur during the remainder of 2015 and into 2016.

For the last several years, the Company s results have included significant amounts of net favorable prior year reserve development, although at lower levels in some recent periods, driven by better than expected loss experience in all of the Company s segments. The lower level of net favorable prior year reserve development in a number of recent periods may have been in part due to the Company s reserve estimation process incorporating those factors that led to the higher levels of net favorable prior year reserve development in previous years. If that trend continues, the better than expected loss experience may continue at these recent lower levels, or even lower levels. However, given the inherent uncertainty in estimating claims and claim adjustment expense reserves, loss experience could develop such that the Company recognizes higher or lower levels of favorable prior year reserve development, no favorable prior year reserve development or unfavorable prior year reserve development in future periods. In addition, the ongoing review of prior year claims and claim adjustment expense reserves, or other changes in current period circumstances, may result in the Company revising current year loss estimates upward or downward in future periods of the current year.

It is possible that the steps taken by the federal government, particularly the Federal Reserve, to stabilize financial markets and improve economic conditions could lead to higher inflation than the Company had anticipated, which could in turn lead to an increase in the Company s loss costs and the need to strengthen claims and claim adjustment expense reserves. These impacts of inflation on loss costs and claims and claim adjustment expense reserves could be more pronounced for those lines

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of business that are considered long tail , such as general liability, as they require a relatively long period of time to finalize and settle claims for a given accident year. For a further discussion, see Part I Item 1A Risk Factors If actual claims exceed our claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, our financial results could be materially and adversely affected in the Company s 2014 Annual Report.

In Business and International Insurance, the Company expects underlying underwriting margins during the remainder of 2015, in light of actual experience in this segment in the same period of 2014, will be modestly higher, reflecting more normalized levels of non-catastrophe weather-related losses and what the Company defines as large losses. The Company expects underlying underwriting margins into 2016 will be broadly consistent with those in the same period of 2015.

In Bond & Specialty Insurance, the Company expects underlying underwriting margins in the remainder of 2015 will be higher than in the same period of 2014, and underlying underwriting margins into 2016 will be broadly consistent with those in the same period of 2015.

In Personal Insurance, the Company expects underlying underwriting margins in the remainder of 2015 and into 2016 will be lower than in the same periods of 2014 and 2015. In Agency Automobile, the Company expects underlying underwriting margins in the remainder of 2015, in light of actual experience in this segment in the same period of 2014, will be lower, reflecting more normalized levels of loss activity, and underlying underwriting margins into 2016 will be broadly consistent with the same period of 2015. In Agency Homeowners and Other, the Company expects underlying underwriting margins in the remainder of 2015 and into 2016, in light of actual experience in this segment in the same periods of 2014 and 2015, will be lower, reflecting more normalized levels of loss activity, including levels of non-catastrophe weather-related losses. Also in Personal Insurance, the Company s direct to consumer initiative, the distribution channel that the Company launched in 2009, while intended to enhance the Company s long-term ability to compete successfully in a consumer-driven marketplace, is expected to remain modest with respect to premium volume and remain unprofitable for a number of years as this book of business grows and matures.

Consolidation within the insurance industry, including among insurance companies, reinsurance companies and brokers and independent insurance agencies, could alter the competitive environment in which the Company operates, positively or negatively, which may impact the Company s premium volume, the rate it can charge for its products, and the terms on which its products are offered.

Investment Portfolio. The Company expects to continue to focus its investment strategy on maintaining a high-quality investment portfolio and a relatively short average effective duration. The average effective duration of fixed maturities and short-term securities was 4.0 (4.3 excluding short-term securities) at September 30, 2015. From time to time, the Company enters into short positions in U.S. Treasury futures contracts to manage the duration of its fixed maturity portfolio. At September 30, 2015, the Company had $450 million notional value of open U.S. Treasury futures contracts. The Company continually evaluates its investment alternatives and mix. Currently, the majority of the Company s investments are comprised of a widely diversified portfolio of high-quality, liquid, taxable U.S. government, tax-exempt U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

The Company also invests much smaller amounts in equity securities, real estate, private equity limited partnerships, hedge funds, and real estate partnerships and joint ventures. These investment classes have the potential for higher returns but also the potential for higher degrees of risk, including less stable rates of return and less liquidity.

Net investment income is a material contributor to the Company s results of operations. Interest rates remain at very low levels by historical standards. Based on the current interest rate environment, the Company estimates that the impacts of lower reinvestment yields and a lower level of fixed maturity investments could, for the fourth quarter of 2015 and into 2016, result in approximately $25 million to $30 million of lower after-tax net investment income from that portfolio on a quarterly basis as compared to the corresponding periods of 2014 and 2015. Given recent general economic and investment market conditions, the Company expects investment income from the non-fixed maturity portfolio during the remainder of 2015 and into 2016 will be comparable to the same periods of 2014 and 2015. If general economic conditions and/or investment market conditions deteriorate during the remainder of 2015 and into 2016, the Company could also experience a further reduction in net investment income and/or significant realized investment losses, including impairments.

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The Company had a net pretax unrealized investment gain of $1.98 billion ($1.30 billion after-tax) in its fixed maturity investment portfolio at September 30, 2015. While the Company does not attempt to predict future interest rate movements, a rising interest rate environment would reduce the market value of fixed maturity investments and, therefore, reduce shareholders equity, and a declining interest rate environment would have the opposite effects.

For further discussion of the Company s investment portfolio, see Investment Portfolio herein. For a discussion of the risks to the Company s business during or following a financial market disruption and risks to the Company s investment portfolio, see the risk factors entitled During or following a period of financial market disruption or economic downturn, our business could be materially and adversely affected and Our investment portfolio may suffer reduced returns or material realized or unrealized losses included in Part I Item 1A Risk Factors in the Company s 2014 Annual Report. For a discussion of the risks to the Company s investments from foreign currency exchange rate fluctuations, see the risk factor entitled We are subject to a number of risks associated with our business outside the United States included in Part I Item 1A Risk Factors in the Company s 2014 Annual Report and see Part II Item 7A Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Exchange Rate Risk in the Company s 2014 Annual Report.

Capital Position. The Company believes it has a strong capital position and, as part of its ongoing efforts to create shareholder value, expects to continue to return capital not needed to support its business operations to its shareholders. The Company expects that, generally over time, the combination of dividends to common shareholders and common share repurchases will likely not exceed operating income. In addition, the timing and actual number of shares to be repurchased in the future will depend on a variety of additional factors, including the Company s financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company s desired ratings from independent rating agencies, funding of the Company s qualified pension plan, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. For information regarding the Company s common share repurchases in 2015, see Liquidity and Capital Resources herein. As a result of the Company s business outside of the United States, primarily in Canada, the United Kingdom (including Lloyd s), the Republic of Ireland and through its joint venture in Brazil, the Company s capital is also subject to the effects of changes in foreign currency exchange rates. For example, strengthening of the U.S. dollar in comparison to other currencies could result in a reduction of shareholders equity. For additional discussion of the Company s foreign exchange market risk exposure, see Part II Item 7A Quantitative and Qualitative Disclosure About Market Risk in the Company s 2014 Annual Report.

Many of the statements in this Outlook section are forward-looking statements, which are subject to risks and uncertainties that are often difficult to predict and beyond the Company s control. Actual results could differ materially from those expressed or implied by such forward-looking statements. Further, such forward-looking statements speak only as of the date of this report and the Company undertakes no obligation to update them. See Forward Looking Statements. For a discussion of potential risks and uncertainties that could impact the Company s results of operations or financial position, see Part I Item 1A Risk Factors in the Company s 2014 Annual Report and Critical Accounting Estimates herein.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of a company s ability to generate sufficient cash flows to meet the cash requirements of its business operations and to satisfy general corporate purposes when needed.

Operating Company Liquidity. The liquidity requirements of the Company s insurance subsidiaries are met primarily by funds generated from premiums, fees, income received on investments and investment maturities. For further discussion of operating company liquidity, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in the Company s 2014 Annual Report.

Holding Company Liquidity. TRV s liquidity requirements primarily include shareholder dividends, debt servicing, common share repurchases and, from time to time, contributions to its qualified domestic pension plan. At September 30, 2015, TRV held total cash and short-term invested assets in the United States aggregating $2.04 billion and having a weighted average maturity of 71 days. Included in the total at September 30, 2015 were net proceeds of $392 million from the Company s issuance of $400 million aggregate principal amount of 4.30% senior notes in August 2015. The Company intends to use the net proceeds from this issuance, along with funds generated internally, to retire the $400 million of maturing debt in December 2015 as described below. It is the opinion of the Company s management that these assets are sufficient to meet TRV s current liquidity requirements and are in excess of TRV s minimum target level, which comprises TRV s estimated annual pretax interest expense and common shareholder dividends, and currently totals approximately $1.1 billion.

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TRV is not dependent on dividends or other forms of repatriation from its foreign operations to support its liquidity needs. U.S. income taxes have not been recognized on substantially all of the Company s foreign operations undistributed earnings as of September 30, 2015, as such earnings are intended to be permanently reinvested in those operations. Furthermore, taxes paid to foreign governments on these earnings may be used as credits against the U.S. tax on dividend distributions if such earnings were to be distributed to the holding company. The amount of undistributed earnings from foreign operations and related taxes on those undistributed earnings were not material to the Company s financial position or liquidity at September 30, 2015.

TRV has a shelf registration statement with the Securities and Exchange Commission which permits it to issue securities from time to time. TRV also has a $1.0 billion line of credit facility with a syndicate of financial institutions that expires in June 2018. This line of credit also supports TRV s $800 million commercial paper program, of which $100 million was outstanding at September 30, 2015. TRV is not reliant on its commercial paper program to meet its operating cash flow needs.

The Company utilized uncollateralized letters of credit issued by major banks with an aggregate limit of approximately $118 million, to provide a portion of the capital needed to support its obligations at Lloyd s at September 30, 2015. If uncollateralized letters of credit are not available at a reasonable price or at all in the future, the Company can collateralize these letters of credit or may have to seek alternative means of supporting its obligations at Lloyd s, which could include utilizing holding company funds on hand.

On December 1, 2015, the Company s $400 million, 5.50% senior notes will mature. The Company intends to fund this maturity as described above. On June 20, 2016, the Company s $400 million, 6.25% senior notes will mature. The Company may refinance this maturing debt through funds generated internally or, depending on market conditions, through funds generated externally.

Operating Activities

Net cash flows provided by operating activities in the first nine months of 2015 and 2014 were $2.67 billion and $3.17 billion, respectively. Cash flows in the first nine months of 2015 reflected a higher level of losses and loss adjustment expenses paid as a result of the Company s $579 million payment in the first quarter of 2015 related to the settlement of the Asbestos Direct Action Litigation as described in more detail in note 12 of notes to the unaudited consolidated financial statements herein.

Investing Activities

Net cash flows used in investing activities in the first nine months of 2015 and 2014 were $491 million and $402 million, respectively. The Company s consolidated total investments at September 30, 2015 decreased by $1.20 billion, or 2% from year-end 2014, primarily reflecting a decrease in the unrealized appreciation of investments, common share repurchases, the impact of changes in foreign currency exchange rates and dividends paid to shareholders, partially offset by net cash flows provided by operating activities and the proceeds from the Company s issuance of debt in August 2015 as described above.

Financing Activities

Net cash flows used in financing activities in the first nine months of 2015 and 2014 were $2.20 billion and $2.69 billion, respectively. The totals in both periods primarily reflected common share repurchases and dividends to shareholders, partially offset by the proceeds from employee stock option exercises. In addition, net cash flows used in financing activities in the first nine months of 2015 were partially offset by the proceeds from the issuance of debt in August 2015 as described above.

Dividends. Dividends paid to shareholders were $557 million and $549 million in the first nine months of 2015 and 2014, respectively. The declaration and payment of future dividends to holders of the Company s common stock will be at the discretion of the Company s board of directors and will depend upon many factors, including the Company s financial position, earnings, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant. Dividends will be paid by the Company only if declared by its board of directors out of funds legally available, subject to any other restrictions that may be applicable to the Company. On October 20, 2015, the Company announced that it declared a regular quarterly dividend of $0.61 per share, payable December 31, 2015, to shareholders of record on December 10, 2015.

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Share Repurchase Authorization. The Company s board of directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company s financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company s desired ratings from independent rating agencies, funding of the Company s qualified pension plan, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. During the three months and nine months ended September 30, 2015, the Company repurchased 7.3 million and 20.8 million shares, respectively, under its share repurchase authorization, for a total cost of $750 million and $2.15 billion, respectively. The average cost per share repurchased was $102.81 and $103.48, respectively. At September 30, 2015, the Company had $4.33 billion of capacity remaining under the share repurchase authorization.

Capital Structure. The following table summarizes the components of the Company s capital structure at September 30, 2015 and December 31, 2014.

(in millions)	**September 30, 2015**	**December 31, 2014**
Debt:		
Short-term	**$ 900**	$ 500
Long-term	**5,861**	5,861
Net unamortized fair value adjustments and debt issuance costs	**(18)**	(12)
Total debt	**6,743**	6,349
Shareholders equity:		
Common stock and retained earnings, less treasury stock	**24,001**	23,956
Accumulated other comprehensive income	**32**	880
Total shareholders equity	**24,033**	24,836
Total capitalization	**$ 30,776**	$ 31,185

The following table provides a reconciliation of total capitalization excluding net unrealized gain on investments to total capitalization presented in the foregoing table.

(dollars in millions)	**September 30, 2015**	**December 31, 2014**
Total capitalization excluding net unrealized gain on investments	**$ 29,362**	$ 29,219
Net unrealized gain on investments, net of taxes	**1,414**	1,966
Total capitalization	**$ 30,776**	$ 31,185

Debt-to-total capital ratio	**21.9%**	20.4%
Debt-to-total capital ratio excluding net unrealized gain on investments	**23.0%**	21.7%

The debt-to-total capital ratio excluding net unrealized gain on investments is calculated by dividing (a) debt by (b) total capitalization excluding net unrealized gains and losses on investments, net of taxes. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company s management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company s financial leverage position. The Company s ratio of debt-to-total capital (excluding after-tax net unrealized investment gains) of 23.0% at September 30, 2015 was within the Company s target range of 15% to 25%.

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RATINGS

Ratings are an important factor in assessing the Company s competitive position in the insurance industry. The Company receives ratings from the following major rating agencies: A.M. Best Company (A.M. Best), Fitch Ratings (Fitch), Moody s Investors Service (Moody s) and Standard & Poor s (S&P). The following rating agency actions were taken with respect to the Company since July 21, 2015, the date on which the Company s Form 10-Q for the quarter ended June 30, 2015 was filed with the Securities and Exchange Commission. For additional discussion of ratings, see Part I Item 1 Business Ratings in the Company s 2014 Annual Report.

- On August 28, 2015, Fitch affirmed all ratings of the Company. The outlook for all ratings is stable.

CRITICAL ACCOUNTING ESTIMATES

For a description of the Company s critical accounting estimates, refer to Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in the Company s 2014 Annual Report. The Company considers its most significant accounting estimates to be those applied to claims and claim adjustment expense reserves and related reinsurance recoverables, investment valuation and impairments, and goodwill and other intangible assets impairments. Except as shown in the table below, there have been no material changes to the Company s critical accounting estimates since December 31, 2014.

Claims and Claim Adjustment Expense Reserves

The table below displays the Company s gross claims and claim adjustment expense reserves by product line. Additional liabilities may arise for amounts in excess of the current related reserves. In addition, the Company s estimate of claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company s operating results in future periods. In particular, a portion of the Company s gross claims and claim adjustment expense reserves (totaling $2.48 billion at September 30, 2015) are for asbestos and environmental claims and related litigation. While the ongoing review of asbestos and environmental claims and associated liabilities considers the inconsistencies of court decisions as to coverage, plaintiffs expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of the Company s management, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could be material to the Company s future operating results. See the preceding discussion of Asbestos Claims and Litigation and Environmental Claims and Litigation.

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

	September 30, 2015			December 31, 2014		
(in millions)	Case	IBNR	Total	Case	IBNR	Total
General liability	**$ 5,044**	**$ 7,941**	**$ 12,985**	$ 5,886	$ 7,826	$ 13,712
Commercial property	**695**	**500**	**1,195**	795	496	1,291
Commercial multi-peril	**1,914**	**1,766**	**3,680**	1,849	1,819	3,668
Commercial automobile	**2,056**	**1,249**	**3,305**	2,094	1,249	3,343
Workers compensation	**10,286**	**8,392**	**18,678**	10,067	8,191	18,258
Fidelity and surety	**204**	**542**	**746**	233	573	806
Personal automobile	**1,714**	**829**	**2,543**	1,737	848	2,585
Homeowners and personal other	**605**	**420**	**1,025**	578	525	1,103
International and other	**2,795**	**1,620**	**4,415**	3,254	1,804	5,058
Property-casualty	**25,313**	**23,259**	**48,572**	26,493	23,331	49,824
Accident and health	**24**		**24**	26		26
Claims and claim adjustment expense reserves	**$ 25,337**	**$ 23,259**	**$ 48,596**	$ 26,519	$ 23,331	$ 49,850

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The $1.25 billion decrease in gross claims and claim adjustment expense reserves since December 31, 2014 primarily reflected the impact of (i) payments related to operations in runoff, including a $579 million payment related to the settlement of the Asbestos Direct Action Litigation as described in more detail in note 12 of notes to the unaudited consolidated financial statements herein, (ii) net favorable prior year reserve development and (iii) changes in foreign currency exchange rates.

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

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See note 1 of notes to the Company s unaudited consolidated financial statements contained in this quarterly report and in the Company s 2014 Annual Report for a discussion of recently issued accounting pronouncements.

FORWARD-LOOKING STATEMENTS

This report contains, and management may make, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as may, will, should, likely, anticipates, expects, intends, plans, projects, believes, estimates and similar expressions are used to identify these statements. Specifically, statements about the Company s outlook, share repurchase plans, potential margins, potential returns, future pension plan contributions and the potential impact of investment markets and other economic conditions on the Company s investment portfolio and underwriting results, among others, are forward looking, and the Company may also make forward-looking statements about, among other things:

- its results of operations and financial condition (including, among other things, premium volume, premium rates, net and operating income, investment income and performance, loss costs, return on equity, and expected current returns and combined ratios);
- the sufficiency of the Company s asbestos and other reserves;
- the impact of emerging claims issues as well as other insurance and non-insurance litigation;
- the cost and availability of reinsurance coverage;
- catastrophe losses;
- the impact of investment, economic (including rapid changes in commodity prices, such as a significant decline in oil and gas prices, as well as fluctuations in foreign currency exchange rates) and underwriting market

conditions; and

- strategic initiatives to improve profitability and competitiveness.

The Company cautions investors that such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the Company s control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Some of the factors that could cause actual results to differ include, but are not limited to, the following:

- catastrophe losses could materially and adversely affect the Company s results of operations, its financial position and/or liquidity, and could adversely impact the Company s ratings, the Company s ability to raise capital and the availability and cost of reinsurance;

- during or following a period of financial market disruption, economic downturn, or prolonged period of slow economic growth, the Company s business could be materially and adversely affected;

- if actual claims exceed the Company s claims and claim adjustment expense reserves, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, the Company s financial results could be materially and adversely affected;

- the Company s investment portfolio may suffer reduced or low returns or material realized or unrealized losses;

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- the Company s business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation;
- the Company is exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances;
- the effects of emerging claim and coverage issues on the Company s business are uncertain;
- the intense competition that the Company faces could harm its ability to maintain or increase its business volume and its profitability;
- consolidation within the insurance industry, including among insurance companies, reinsurance companies and brokers and independent insurance agencies, could alter the competitive environment in which the Company operates, which may impact the Company s premium volume, the rate it can charge for its products, and the terms on which its products are offered;
- the Company may not be able to collect all amounts due to it from reinsurers and reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all;
- the Company is exposed to credit risk in certain of its business operations, including reinsurance or structured settlements and investment operations;
- within the United States, the Company s businesses are heavily regulated by the states in which it conducts business, including licensing and supervision, and changes in regulation may reduce the Company s profitability and limit its growth;
- changes in federal regulation could impose significant burdens on the Company and otherwise adversely impact the Company s results;
- a downgrade in the Company s claims-paying and financial strength ratings could adversely impact the Company s business volume, adversely impact the Company s ability to access the capital markets and increase the Company s borrowing costs;
- the inability of the Company s insurance subsidiaries to pay dividends to the Company s holding company in sufficient amounts would harm the Company s ability to meet its obligations, pay future shareholder dividends or make future share repurchases;
- disruptions to the Company s relationships with its independent agents and brokers could adversely affect the Company;
- the Company s efforts to develop new products or expand in targeted markets may not be successful and may create enhanced risks;
- the Company may be adversely affected if its pricing and capital models provide materially different indications than actual results;

- the Company s business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology;

- if the Company experiences difficulties with technology, data and network security, including as a result of cyber-attacks, and/or outsourcing relationships, including cloud-based, the Company s ability to conduct its business could be negatively impacted;

- the Company is subject to a number of risks associated with its business outside the United States, including foreign currency exchange fluctuations and restrictive regulations;

- new regulations outside of the United States, including in the European Union, could adversely impact the Company s results of operations and limit its growth;

- loss of or significant restrictions on the use of particular types of underwriting criteria, such as credit scoring, or other data or methodologies, in the pricing and underwriting of the Company s products could reduce the Company s future profitability;

- acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences;

- the Company could be adversely affected if its controls designed to ensure compliance with guidelines, policies and legal and regulatory standards are not effective;

- the Company s businesses may be adversely affected if it is unable to hire and retain qualified employees;

- intellectual property is important to the Company s business, and the Company may be unable to protect and enforce its own intellectual property or the Company may be subject to claims for infringing the intellectual property of others;

- changes to existing accounting standards may adversely impact the Company s reported results;

- changes in U.S. tax laws or in the tax laws of other jurisdictions in which the Company operates could adversely impact the Company; and

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- the Company s share repurchase plans depend on a variety of factors, including the Company s financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company s desired ratings from independent rating agencies, funding of the Company s qualified pension plan, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors.

The Company s forward-looking statements speak only as of the date of this report or as of the date they are made, and the Company undertakes no obligation to update forward-looking statements. For a more detailed discussion of these factors, see the information under the caption Part I Item 1A Risk Factors in the Company s 2014 Annual Report filed with the Securities and Exchange Commission and Management s Discussion and Analysis of Financial Condition and Results of Operations herein and in the Company s 2014 Annual Report.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

From time to time, the Company may use its website and/or social media outlets, such as Facebook and Twitter, as distribution channels of material company information. Financial and other important information regarding the Company is routinely posted on and accessible through and posted on the Company s website at http://investor.travelers.com, its Facebook page at http://www.facebook.com/travelers and its Twitter account (@Travelers) at http://twitter.com/Travelers. In addition, you may automatically receive email alerts and other information about the Company when you enroll your email address by visiting the Email Notifications section at http://investor.travelers.com.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For the Company s disclosures about market risk, please see Part II Item 7A Quantitative and Qualitative Disclosures About Market Risk in the Company s 2014 Annual Report filed with the Securities and Exchange Commission. There have been no material changes to the Company s disclosures about market risk in Part II Item 7A of the Company s 2014 Annual Report.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in the Company s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of September 30, 2015. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015, the design and operation of the Company s disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

In addition, there was no change in the Company s internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information required with respect to this item can be found under Contingencies in note 12 of notes to the Company s unaudited consolidated financial statements contained in this quarterly report and is incorporated by reference into this Item 1.

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Item 1A. RISK FACTORS

For a discussion of the Company s potential risks or uncertainties, please see Part I Item 1A Risk Factors in the Company s 2014 Annual Report filed with the Securities and Exchange Commission. In addition, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Outlook and Critical Accounting Estimates herein and in the Company s 2014 Annual Report. There have been no material changes to the risk factors disclosed in Part I Item 1A of the Company s 2014 Annual Report.

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)
July 1, 2015	July 31, 2015	984,649	$ 105.81	983,661	$ 4,980
August 1, 2015	August 31, 2015	4,034,161	$ 104.01	4,033,184	$ 4,560
Sept. 1, 2015	Sept. 30, 2015	2,282,095	$ 99.40	2,278,292	$ 4,334
Total		7,300,905	$ 102.81	7,295,137	$ 4,334

The Company s board of directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company s financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company s desired ratings from independent rating agencies, funding of the Company s qualified pension plan, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors.

The Company acquired 5,768 shares for a total cost of approximately $0.6 million during the three months ended September 30, 2015 that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock awards and shares used by employees to cover the exercise price of certain stock options that were exercised.

Item 5. OTHER INFORMATION

Executive Ownership and Sales. All of the Company s executive officers hold equity in the Company in excess of the required level under the Company s executive stock ownership policy. For a summary of this policy as currently in effect, see Compensation Discussion and Analysis Stock Ownership Guidelines, Anti-Hedging and Pledging Policies, and Other Trading Restrictions in the Company s proxy statement filed with the Securities and Exchange Commission on April 3, 2015. From time to time, some of the Company s executives may determine that it is advisable to diversify their investments for personal financial planning reasons, or may seek liquidity for other reasons, and may sell shares of common stock of the Company in the open market, in private transactions or to the Company. To effect such sales, some of the Company s executives have entered into, and may in the future enter into, trading plans designed to comply with the Company s Securities Trading Policy and the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934. The trading plans will not reduce any of the executives ownership of the Company s shares below the applicable executive stock ownership guidelines. The Company does not undertake any obligation to report Rule 10b5-1 plans that may be adopted by any employee or director of the Company in the future, or to report any modifications or termination of any publicly announced plan.

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As of the date of this report, Jay S. Fishman, Chairman and Chief Executive Officer, and Alan D. Schnitzer, Vice Chairman and Chief Executive Officer, Business and International Insurance, were the only named executive officers (i.e., an executive officer named in the compensation disclosures in the Company s most recent proxy statement) that have entered into Rule 10b5-1 trading plans that remain in effect. The trading plans extend from approximately one to six months from the date of this report. Under the Company s stock ownership guidelines, Mr. Fishman has a target ownership level established as the lesser of 150,000 shares or the equivalent value of 500% of base salary, and Mr. Schnitzer has a target ownership level established as the lesser of 30,000 shares or the equivalent value of 300% of base salary (as such amount is calculated for purposes of the stock ownership guidelines).

Item 6. EXHIBITS

See Exhibit Index.

SIGNATURES

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

		THE TRAVELERS COMPANIES, INC. **(Registrant)**
Date: October 20, 2015	By	/S/ KENNETH F. SPENCE III **Kenneth F. Spence III** **Executive Vice President and General Counsel** **(Authorized Signatory)**
Date: October 20, 2015	By	/S/ DOUGLAS K. RUSSELL **Douglas K. Russell** **Senior Vice President and Corporate Controller** **(Principal Accounting Officer)**

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of The Travelers Companies, Inc. (the Company), as amended and restated May 23, 2013, were filed as Exhibit 3.1 to the Company s current report on Form 8-K filed on May 24, 2013, and are incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Company, effective as of August 5, 2014, were filed as Exhibit 3.2 to the Company s current report on Form 8-K filed on August 11, 2014, and are incorporated herein by reference.
10.1	Letter regarding Amended and Restated Employment Agreement between the Company and Jay S. Fishman, dated August 4, 2015.
10.2	Letter Agreement between Alan D. Schnitzer and the Company, dated August 4, 2015.
10.3	Time Sharing Agreement, dated September 2, 2015, by and between the Company and Alan D. Schnitzer.
12.1	Statement regarding the computation of the ratio of earnings to fixed charges.
31.1	Certification of Jay S. Fishman, Chairman and Chief Executive Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jay S. Fishman, Chairman and Chief Executive Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following financial information from The Travelers Companies, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in XBRL: (i) Consolidated Statement of Income for the three months and nine months ended September 30, 2015 and 2014; (ii) Consolidated Statement of Comprehensive Income for the three months and nine months ended September 30, 2015 and 2014; (iii) Consolidated Balance Sheet at September 30, 2015 and December 31, 2014; (iv) Consolidated Statement of Changes in Shareholders Equity for the nine months ended September 30, 2015 and 2014; (v) Consolidated Statement of Cash Flows for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Consolidated Financial Statements.

Filed herewith.

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

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

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs at the date they were made or at any other time.