TRAVELERS PROPERTY CASUALTY CORP
Form 10-Q/A
February 10, 2004

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended September 30, 2003
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 001-31266

Travelers Property Casualty Corp.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1008174**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Tower Square, Hartford, Connecticut 06183
(Address of principal executive offices)

(860) 277-0111
(Registrant s telephone number, including area code)

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Common stock outstanding as of October 24, 2003:

Class A	504,966,902
Class B	499,859,233

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Explanatory Note

This Quarterly Report on Form 10-Q/A amends Travelers Property Casualty Corp. and subsidiaries (collectively, the Company) Form 10-Q for the quarterly period ended September 30, 2003. The purpose of this amendment is to delete from Management s Discussion and Analysis of Financial Condition and Results of Operations certain financial measures which may be considered to be non-GAAP financial measures pursuant to Item 10 of Regulation S-K. The amendment also reflects non-substantive, formatting changes which were made in light of the deletions. The amendment in no way affects the Company s current or past reported earnings or financial statements. The Company is filing this amendment in response to comments the Company received from the Securities and Exchange Commission in connection with its review of the documents incorporated by reference in the Company s preliminary proxy statement relating to the Company s proposed merger with The St. Paul Companies, Inc. This amendment continues to speak as of the date of the original filing of the Quarterly Report, and the Company has not updated the disclosures therein to reflect any events that occurred at a later date. Item 2 is hereby amended and restated in its entirety.

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

CONSOLIDATED OVERVIEW

The following discussion and analysis of Travelers Property Casualty Corp. (TPC) and subsidiaries (collectively, the Company) financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements of the Company and related notes included elsewhere in this Form 10-Q and with Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2002 included in the Company s Form 10-K.

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

Consolidated Revenues and Net Income

Consolidated revenues and net income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Consolidated revenues	**$3,745.5**	$3,563.9	**$11,097.2**	$10,116.4
Income before cumulative effect of change in accounting principle	**$ 426.1**	$ 332.3	**$ 1,207.3**	$ 1,009.0
Cumulative effect of change in accounting principle, net of tax				(242.6)
Consolidated net income	**$ 426.1**	$ 332.3	**$ 1,207.3**	$ 766.4

The Company s discussions related to all items, other than net income, are presented on a pretax basis, unless otherwise noted.

Revenues increased $181.6 million or 5% and $980.8 million or 10% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002. The increase in the 2003 third quarter revenues reflects a $273.9 million increase in earned premiums, a $17.2 million increase in net investment income, a $15.1 million increase in fee income and a $28.0 million decrease in net realized investment losses. The increase in the 2003 nine months revenues reflects a $1.012 billion increase in earned premiums, a $73.6 million increase in fee income and a $57.8 million decrease in net realized investment losses, offset by a $23.6 million decrease in net investment income. The 2002 third quarter and nine months include a $159.3 million recovery from the Citigroup indemnification agreement which was fully utilized by the end of 2002.

Net income increased $93.8 million or 28% and $440.9 million or 58% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002. Net income for the 2003 third quarter reflects strong underwriting performance due to the continuing favorable, but moderating, rate environment and favorable prior year reserve development compared to unfavorable prior year development in the 2002 third quarter, partially offset by higher weather-related catastrophe losses in the 2003 quarter. Net income for the 2003 nine months also reflects strong underwriting performance due to the continuing favorable, but moderating, rate environment and lower unfavorable prior year reserve development compared to the 2002 nine months, partially offset by higher weather-related catastrophe losses in the 2003 nine months. Net investment income increased $15.3 million or 5% from the prior year quarter. Returns from higher average invested assets resulting from strong operating cash flows and higher 2003 third quarter returns in the Company s private equity and arbitrage fund investments were partially offset by lower average yields on fixed maturities. The after tax investment yield on total invested assets

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declined 20 basis points from the prior year quarter to 3.9%. Despite strong cash flows from operations in the 2003 nine months, after tax net investment income decreased $3.1 million or less than 1% from the prior year period due to the lower interest rate environment along with reduced nine month returns in the Company s private equity and real estate equity investments partially offset by higher returns in arbitrage fund investments. Also included in the 2003 nine months net income is a $15.1 million minority interest benefit primarily related to prior year reserve development charges, compared to $1.3 million of minority interest charges in the comparable 2002 period. Net income included $16.6 million and $4.7 million of net realized investment losses in the 2003 third quarter and nine months, respectively, compared to $27.8 million and $32.9 million of net realized investment losses in the comparable periods of 2002. Net income for the nine months of 2002 included a charge for the cumulative effect of a change in accounting principle of $242.6 million due to the adoption of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets .

Consolidated revenues were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Earned premiums	**$3,149.2**	$2,875.3	**$ 9,228.2**	$ 8,216.6
Net investment income	**457.9**	440.7	**1,369.7**	1,393.3
Fee income	**133.7**	118.6	**403.7**	330.1
Net realized investment losses	**(23.3)**	(51.3)	**(0.7)**	(58.5)
Recoveries from former affiliate		159.3		159.3
Other revenues	**28.0**	21.3	**96.3**	75.6
Consolidated revenues	**$3,745.5**	$3,563.9	**$11,097.2**	$10,116.4

Earned premiums increased $273.9 million or 10% and $1.012 billion or 12% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002. The increase in earned premiums in the 2003 third quarter and nine months was due to rate increases on renewal business, growth in targeted new business and strong customer retention in both Commercial Lines and Personal Lines. Commercial Lines earned premiums increased $159.1 million or 9% and $664.0 million or 13% in the 2003 third quarter and nine months, respectively. Commercial Lines earned premiums include Northland and Associates, which decreased $83.2 million or 36% and $152.1 million or 24% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002 due to the withdrawal in 2002 of business at American Equity (a Northland subsidiary) and Associates. Personal Lines earned premiums increased $114.8 million or 10%, and $347.6 million or 11% in the 2003 third quarter and nine months, respectively.

Net investment income increased $17.2 million or 4% in the 2003 third quarter and decreased $23.6 million or 2% in the nine months of 2003 from the comparable periods of 2002. These changes were due to the factors previously discussed and were also impacted by a higher proportion of tax exempt investments.

Fee income increased $15.1 million or 13% and $73.6 million or 22% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002. Fees rose as both new business and pricing levels in our National Accounts business increased and more workers compensation business was written by state residual market pools, as discussed below.

Net realized investment losses were $23.3 million and $0.7 million in the 2003 third quarter and nine months, respectively, compared to $51.3 million and $58.5 million of net realized investment losses in the 2002 comparable periods. Net realized investment losses included gains of $12.7 million in the 2003 third quarter and losses of $37.2 million in the 2003 nine months, related to U.S. Treasury futures contracts which are settled daily. Net realized investment losses also include $7.2 million and $84.3 million of impairment charges in the 2003 third quarter and nine months, respectively, compared to $34.7 million and $223.6 million in the comparable periods of

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2002. The 2003 and 2002 impairment charges were mostly related to corporate bonds in the healthcare, communications, aviation and energy sectors.

Consolidated net written premiums were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Commercial Lines	**$2,019.8**	$1,839.6	**$5,994.3**	$5,448.8
Personal Lines	**1,355.8**	1,218.0	**3,817.1**	3,429.4
Total net written premiums	**$3,375.6**	$3,057.6	**$9,811.4**	$8,878.2

Net written premiums increased $318.0 million or 10% and $933.2 million or 11% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002. The increases in net written premiums in 2003 were primarily due to higher but moderating rates, new business growth in favorable markets and strong retention across all major lines of business, partially offset by the 2002 decision to discontinue writing certain low margin specialty lines at American Equity (a subsidiary of Northland) and certain transportation business at Associates. The 2003 nine months increase was also impacted by a decrease in Northland net written premiums resulting from the inclusion in the 2002 second quarter of an additional $115.0 million of net written premiums due to the termination of certain reinsurance contracts by Northland.

Commercial Lines net written premiums, excluding business written in Northland and Associates, increased $252.3 million or 15% and $818.0 million or 17% for the 2003 third quarter and nine months, respectively, due to higher but moderating rates, new business growth in favorable markets and strong retention across all major business lines. Personal Lines net written premiums increased $137.8 million or 11% and $387.7 million or 11% for the 2003 third quarter and nine months, respectively, due to higher but moderating rates as well as increased business volumes.

Consolidated claims and expenses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Claims and claim adjustment expenses	**$2,236.5**	$2,370.0	**$6,735.4**	$6,450.4
Amortization of deferred acquisition costs	**512.3**	462.3	**1,458.4**	1,334.8
Interest expense	**38.1**	40.4	**130.1**	116.0
General and administrative expenses	**397.9**	351.6	**1,204.6**	986.1
Consolidated claims and expenses	**$3,184.8**	$3,224.3	**$9,528.5**	$8,887.3

Claims and expenses decreased $39.5 million or 1% in the 2003 third quarter from the comparable period of 2002. The decrease was primarily due to favorable prior year reserve development in the 2003 third quarter compared to unfavorable prior year reserve development in the 2002 third quarter, partially offset by higher weather related catastrophe losses and higher loss costs. The 2003 third quarter also reflects higher commissions, premium taxes and general and administrative expenses associated with business growth. Favorable prior year reserve development included in claims and expenses was $14.2 million ($9.2 million after tax) for the 2003 third quarter compared to 2002 third quarter unfavorable prior year reserve development of $310.7 million ($42.7 million after the benefit related to recoveries under the Citigroup indemnification agreement and after tax). The 2002 third quarter unfavorable prior year reserve development included $293.8 million of asbestos incurred losses ($31.7 million after the benefit related to recoveries under the Citigroup indemnification agreement and after tax)

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compared to no asbestos incurrals in the 2003 third quarter. The 2003 third quarter favorable prior year reserve development included a $38.1 million benefit ($24.8 million after tax) in Personal Lines primarily related to continued reduced levels of non-catastrophe property claim frequency. Catastrophe losses, net of reinsurance, were $127.7 million in the 2003 third quarter ($83.0 million net of tax and reinsurance) compared to $17.0 million in the 2002 third quarter ($11.1 million net of tax and reinsurance).

Claims and expenses increased $641.2 million or 7% in the 2003 nine months from the comparable period of 2002. The increase was primarily due to increased loss costs and higher weather related catastrophe losses, partially offset by lower unfavorable prior year reserve development in the 2003 nine months. The 2003 nine months also reflects higher commissions, premium taxes and general and administrative expenses associated with business growth. Unfavorable prior year reserve development included in claims and expenses was $162.9 million ($105.9 million after tax) for the 2003 nine months compared to 2002 unfavorable prior year reserve development of $484.6 million ($155.8 million after the benefit related to recoveries under the Citigroup indemnification agreement and after tax). The 2002 nine months unfavorable prior year reserve development included $395.0 million of asbestos incurred losses ($97.5 million after the benefit related to recoveries under the Citigroup indemnification agreement and after tax), compared to no asbestos incurrals in the 2003 nine months. The most significant component of the 2003 nine months prior year reserve development was a $269.1 million charge ($174.9 million after tax) related to first quarter 2003 reserve strengthening at Gulf Insurance Group (Gulf) (a majority-owned subsidiary). The reserve strengthening primarily related to a line of business that insured the residual values of leased vehicles and that was placed in runoff in late 2001. The charge reflects the significant decline in used vehicle prices and an assumption of further reductions. Also included was a $127.1 million charge ($82.6 million after tax) related to the resolution of a residual value claims dispute. The effect of this first quarter charge to the Company was $145.5 million after tax and minority interest. The Gulf reserve strengthening was partially offset by net favorable Commercial Lines and Personal Lines prior year reserve development of $106.2 million ($69.0 million after tax) primarily related to property coverages. Catastrophe losses, net of reinsurance, were $305.8 million in the 2003 nine months ($198.8 million net of tax and reinsurance) compared to $55.0 million ($35.8 million net of tax and reinsurance) in the 2002 nine months. The 2003 catastrophe losses were primarily due to Hurricane Isabel in the third quarter, severe storms in the second quarter in a number of Southern and Midwestern states and a severe winter storm in Colorado in the first quarter. Higher interest expense for the 2003 nine months resulted from the 2003 financing activities that were completed in the second quarter. Shareholder services costs increased subsequent to the August 20, 2002 spin off from Citigroup. For additional information on the Company s spin off from Citigroup, see the Company s Form 10-K for the year ended December 31, 2002.

The Company s effective federal tax rate was 23.5% and 24.0% in the 2003 third quarter and nine months compared to 1.8% and 17.8% in the comparable periods of 2002. The increase in the effective federal tax rate reflects a higher level of pretax income associated with improved underwriting performance for the third quarter and nine months of 2003 compared to the third quarter and nine months of 2002, partially offset by a higher level of non-taxable investment income. The effective tax rates for the 2002 periods also reflect the third quarter impact of non-taxable recoveries of $159.3 million related to the Citigroup indemnification agreement.

The consolidated GAAP combined ratios before policyholder dividends were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Loss and loss adjustment expense (LAE) ratio[1]	**69.1%**	71.8%	**71.1%**	73.4%
Underwriting expense ratio	**26.3**	26.1	**26.1**	26.2
Consolidated GAAP combined ratio	**95.4%**	97.9%	**97.2%**	99.6%

(1) Net of the Citigroup indemnification agreement in 2002.

The 2.5 point improvement in the 2003 third quarter GAAP combined ratio before policyholder dividends as compared to the 2002 third quarter resulted from premium rate increases that exceeded loss costs and favorable prior year reserve development compared to unfavorable prior year reserve development in the 2002 third quarter partially offset by higher catastrophe losses. The 2.4 point improvement in the 2003 nine months GAAP combined ratio before policyholder dividends as compared to the 2002 nine months resulted from premium rate increases that exceeded loss costs and lower prior year reserve development partially offset by higher catastrophe losses.

RESULTS OF OPERATIONS BY SEGMENT

The Company s discussions related to segment operating income are presented on an after tax basis. All other discussions are presented on a pretax basis, unless otherwise noted.

Commercial Lines

Commercial Lines revenues and operating income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Revenues	**$2,426.0**	$2,395.1	**$7,197.6**	$6,615.6
Operating income	**$ 379.8**	$ 294.7	**$ 992.7**	$ 882.8

Revenues increased $30.9 million or 1% and $582.0 million or 9% in the 2003 third quarter and nine months from the comparable periods of 2002. These increases were primarily attributable to increases in earned premiums due to premium rate increases and increases in fee income as both new business and pricing levels increased. The increases in revenue were partially offset by the inclusion in the third quarter and nine months of 2002 of $159.3 million from the Citigroup indemnification agreement, which is reported as recoveries from former affiliate. The total benefit available under the agreement was fully utilized in the 2002 fourth quarter.

Operating income increased $85.1 million or 29% in the 2003 third quarter from the 2002 comparable quarter. The third quarter 2003 underwriting performance reflects the continuing favorable but moderating rate environment. Also, the 2003 third quarter was unfavorably impacted by $23.0 million of catastrophe losses compared to none in the prior year quarter. The 2003 third quarter reflects no charge related to asbestos versus a charge of $31.7 million, net of the benefit from the Citigroup indemnification agreement, in the prior period quarter. Impacting underwriting performance was net unfavorable prior year reserve development in the 2003 third quarter of $15.6 million ($23.9 million pretax) versus $40.7 million ($62.6 million pretax) of unfavorable prior year reserve development in the prior year quarter. The 2003 third quarter net unfavorable prior year reserve development relates primarily to a $9.1 million increase in loss adjustment expenses ($14.0 million pretax). Net investment income of $281.6 million was $10.9 million higher compared to $270.7 million in the prior year quarter. Higher returns from higher average invested assets resulting from strong operating cash flows and higher returns in the Company s private equity and arbitrage fund investments were partially offset by lower average yields on fixed maturities. The 2003 third quarter operating income also includes $2.0 million of minority interest charges primarily related to Gulf compared to $1.2 million of minority interest charges in the 2002 third quarter.

Operating income increased $109.9 million or 12% in the 2003 nine months from the 2002 comparable period. The nine months 2003 underwriting performance reflects the continuing favorable but moderating rate environment. Also, the 2003 nine months was unfavorably impacted by $69.8 million of catastrophe losses compared to no catastrophe losses in the comparable period of 2002. The 2003 nine months reflects no charge related to asbestos versus a charge of $97.5 million, net of the benefit from the Citigroup indemnification agreement, in the prior year period. Impacting underwriting performance was net unfavorable prior year reserve development in the 2003 nine months of $177.8 million ($273.5 million pretax) versus $147.9 million ($227.5 million pretax) of unfavorable prior year reserve development in the prior year period. The most significant component of the 2003 nine months prior year reserve development was a $174.9 million after tax charge ($269.1

million pretax) related to first quarter reserve strengthening at Gulf. The total effect of this reserve strengthening charge to the Company was $145.5 million after tax and minority interest. The reserve strengthening primarily related to a line of business that insured the residual values of leased vehicles and that was placed in runoff in late 2001. The charge reflects the significant decline in used vehicle prices and an assumption of further reductions. Also included in the charge was an $82.6 million charge related to the resolution of a residual value claims dispute. The Gulf reserve strengthening in the first quarter of 2003 was in addition to the other Commercial Lines prior year reserve development, which was a net charge of $2.9 million in the 2003 nine months. These other Commercial Lines charges include a second quarter $19.5 million addition to the allowance for uncollectible reinsurance recoverables, as well as other reserve strengthening in other lines of business during the 2003 nine month period. These charges were partially offset by a first quarter net prior year reserve development benefit of $46.0 million, primarily related to property coverages. Net investment income of $839.4 million was $5.8 million higher than the prior year nine months due to higher average invested assets resulting from strong operating cash flows along with higher returns in the Company s arbitrage fund investments partially offset by lower returns in private equity and real estate equity investments. Also included in the 2003 nine months operating income is a $19.0 million minority interest benefit primarily related to losses incurred at Gulf, compared to a $1.2 million minority interest charge in the comparable 2002 period.

Commercial Lines revenues were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Earned premiums	**$1,916.9**	$1,757.8	**$5,664.8**	$5,000.8
Net investment income	**368.0**	357.8	**1,098.7**	1,109.9
Fee income	**133.7**	118.6	**403.7**	330.1
Recoveries from former affiliate		159.3		159.3
Other revenues	**7.4**	1.6	**30.4**	15.5
Commercial Lines revenues	**$2,426.0**	$2,395.1	**$7,197.6**	$6,615.6

Earned premiums increased $159.1 million or 9% and $664.0 million or 13% in the 2003 third quarter and nine months, respectively, from $1.758 billion and $5.001 billion in the comparable periods of 2002. The increases in earned premiums in the 2003 third quarter and nine months were primarily due to premium rate increases, growth in targeted new business and strong customer retention. Earned premiums include Northland and Associates which decreased $83.2 million or 36% and $152.1 million or 24% to $148.4 million and $488.2 million in the 2003 third quarter and nine months, respectively, from $231.6 million and $640.3 million in the comparable periods of 2002.

Net investment income increased $10.2 million or 3% in the 2003 third quarter from the comparable period of 2002. This increase was due to higher average invested assets in the 2003 third quarter resulting from strong operating cash flows and higher returns in the Company s private equity and arbitrage fund investments, partially offset by lower average yields on fixed maturities. The decrease in yields reflected the lower interest rate environment, a higher proportion of tax exempt investments and a reduction in average duration. Pretax investment yields declined to 5.2% in the 2003 third quarter from 5.5% in the 2002 comparable period. Net investment income decreased by $11.2 million or 1% in the 2003 nine months from the 2002 nine months due to the lower interest rate environment, a higher proportion of tax exempt investments and a reduction in average duration, along with lower returns in the Company s private equity and real estate equity investments partially offset by higher returns in arbitrage fund investments. Pretax investment yields declined to 5.3 % in the 2003 nine months from 5.9% in the 2002 nine months. The lower average yield was partially offset by the benefit of higher average invested assets that resulted from strong cash flows from underwriting.

Fee income increased $15.1 million or 13% and $73.6 million or 22% in the 2003 third quarter and nine months, respectively from the comparable periods of 2002. National Accounts is the primary source of fee income due to its service businesses, which include claim and loss prevention services to large companies that choose to self-insure a portion of their insurance risks, and claims and policy management services to workers compensation

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residual market pools and automobile assigned risk plans and to self-insurance pools. Fees rose as both new business and pricing levels increased and more workers compensation business was written by state residual market pools. Claim volume under administration, including new and renewal business, increased to $681.9 million and $2.481 billion for the 2003 third quarter and nine months, respectively, compared to $549.8 million and $2.016 billion for the comparable periods in 2002. Claim volume under administration represents a measure of claim volume expected to be serviced, under contracts written in the period, on fee for service arrangements or loss sensitive insurance products.

Commercial Lines net written premiums by market were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Core				
National Accounts	**$ 243.9**	$ 218.6	**$ 663.6**	$ 512.2
Commercial Accounts	**892.1**	888.3	**2,719.1**	2,659.7
Select Accounts	**505.7**	453.6	**1,532.4**	1,381.5
Total Core	**1,641.7**	1,560.5	**4,915.1**	4,553.4
Specialty				
Bond	**216.0**	175.4	**584.9**	466.5
Gulf	**162.1**	103.7	**494.3**	428.9
Total Specialty	**378.1**	279.1	**1,079.2**	895.4
Total net written premiums	**$2,019.8**	$1,839.6	**$5,994.3**	$5,448.8

Net written premiums increased $180.2 million or 10% and $545.5 million or 10% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002. The strong but moderating rate environment, growth in targeted new business, and strong customer retention across all major lines of business combined to drive premium growth.

In addition to fee based products, National Accounts works with national and regional brokers to provide tailored insurance coverages and programs, mainly to large corporations. National Accounts also includes participation in state mandated residual market workers compensation and automobile assigned risk plans. National Accounts net written premiums were $243.9 million and $663.6 million in the 2003 third quarter and nine months, respectively, compared to $218.6 million and $512.2 million in the comparable periods of 2002. The increase in the National Accounts net written premiums was due to the continued benefit from rate increases, higher new business levels and higher business volume in residual market pools. The nine months of 2002 also included a first quarter single, large premium reduction of $41.0 million related to loss-sensitive business. For fee based products see discussion of fee income above.

Commercial Accounts serves primarily mid-sized businesses for casualty products and large, mid-sized and small businesses for property products through a network of independent agents and brokers. Commercial Accounts net written premiums, excluding Northland and Associates, increased 11% to $756.0 million and 17% to $2.300 billion in the 2003 third quarter and nine months, respectively, primarily driven by renewal price change increases averaging 9% and 11% for the 2003 third quarter and nine months, respectively, down from 25% and 24% in the third quarter and nine months of 2002, respectively, and new business growth in favorable markets. The lower level of renewal price changes resulted mostly from moderation in rates. Renewal price change represents the estimated average change in premium on policies that renew, including rate and exposure changes, versus the average premium on those same policies for their prior term. New business premiums in Commercial Accounts for the 2003 third quarter and nine months were $190.4 million and $589.8 million, respectively, compared to $176.5 million and $532.0 million in the comparable periods of 2002. The business retention ratio for the 2003 third quarter and nine months was 82% and 81%, respectively, up from 75% for both of the comparable periods of 2002. Retention represents the estimated percentage of premium available for renewal which renewed in the current period. This renewal price change, new business and retention information excludes the Company s Northland and

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Associates subsidiaries. Net written premiums associated with Northland and Associates subsidiaries were $136.1 million and $418.7 million in the 2003 third quarter and nine months, respectively, compared to $208.2 million and $691.2 million in the comparable prior year periods due to the 2002 decision to discontinue certain low margin specialty lines at American Equity and certain transportation business at Associates. Northland and Associates 2002 nine months net written premiums include an increase of approximately $115.0 million related to the termination of certain reinsurance contracts.

Select Accounts serves small businesses through a network of independent agents. Select Accounts net written premiums increased 11% to $505.7 million and to $1.532 billion in both the 2003 third quarter and nine months, respectively. The increase in Select Accounts net written premiums primarily reflected renewal price change increases averaging 14% for both the 2003 third quarter and nine months, compared to 18% in the third quarter and 17% in the nine months of 2002. New business premiums in Select Accounts for the 2003 third quarter and nine months were $87.1 million and $277.9 million, respectively, compared to $75.3 million and $214.6 million in the comparable periods of 2002. New business growth was especially strong in the property, general liability and commercial multi-peril lines of business. The business retention ratio for both the 2003 third quarter and nine months increased to 83% compared to 80% and 79% for the comparable periods of 2002. Select s retention remains strongest for small commercial business handled through the Company s Service Centers, while premium growth has been greatest in the commercial multi-peril and property lines of business.

Bond provides a variety of fidelity and surety bonds and executive liability coverages to clients of all sizes through independent agents and brokers. Bond net written premiums of $216.0 million and $584.9 million in the 2003 third quarter and nine months, respectively, were $40.6 million and $118.4 million higher than the comparable periods of 2002. The 2002 first quarter included a $17.5 million reduction due to a change in the Bond Executive Liability excess of loss reinsurance treaty that was effective January 1, 2002. The nine month increase of $100.9 million, before the reinsurance adjustment, reflects a favorable premium rate environment and strong new business principally in executive liability product lines, which target middle and small market private accounts, partially offset by higher reinsurance costs. In addition, the surety product lines benefited from higher premium rates in 2003.

Gulf markets products to national, mid-sized and small customers and distributes them through both wholesale brokers and retail agents and brokers throughout the United States with particular emphasis on management and professional liability coverages and excess and surplus lines of insurance. Gulf net written premiums of $162.1 million and $494.3 million in the 2003 third quarter and nine months, respectively, increased $58.4 million and $65.4 million compared to the comparable periods of 2002 as a result of significant rate increases, especially for director s and officers liability insurance and other professional liability products. In addition, the comparison with the prior year quarter benefited from reductions to net written premiums in the 2002 quarter related to the exiting of non-core businesses.

Commercial Lines claims and expenses were as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in millions)	**2003**	**2002**	**2003**	**2002**
Claims and claim adjustment expenses	**$1,328.8**	$1,563.3	**$4,169.0**	$4,039.7
Amortization of deferred acquisition costs	**304.2**	274.6	**871.1**	791.7
Interest expense	**1.3**	1.1	**3.8**	2.3
General and administrative expenses	**293.0**	254.4	**888.7**	706.1
Commercial Lines claims and expenses	**$1,927.3**	$2,093.4	**$5,932.6**	$5,539.8

Commercial Lines claims and expenses decreased $166.1 million or 8% in the 2003 third quarter from the comparable period of 2002. The decrease was primarily due to lower unfavorable prior year reserve development in the 2003 third quarter partially offset by increased loss costs and higher weather related catastrophe losses. The third quarter also reflects higher commissions, premium taxes and general and administrative expenses associated

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with business growth. Unfavorable prior year reserve development included in claims and expenses was $23.9 million for the 2003 third quarter compared to $307.6 million in the 2002 third quarter ($40.7 million after the benefit related to recoveries under the Citigroup indemnification agreement and after tax). The 2002 third quarter unfavorable prior year reserve development included $293.8 million of asbestos incurred losses ($31.7 million after the benefit related to recoveries under the Citigroup indemnification agreement and after tax) compared to no asbestos incurrals in the 2003 third quarter. The 2003 third quarter unfavorable prior year reserve development included a $14.0 million increase in loss adjustment expenses. Catastrophe losses, net of reinsurance, were $35.4 million in the 2003 third quarter ($23.0 million net of tax and reinsurance) compared to no catastrophe losses in the 2002 third quarter. Third quarter 2003 catastrophe losses were primarily due to Hurricane Isabel.

Commercial Lines claims and expenses increased $392.8 million or 7% in the 2003 nine months from the comparable period of 2002. The increase was primarily due to increased loss costs and higher weather related catastrophe losses, partially offset by lower unfavorable prior year reserve development in the 2003 nine months. The 2003 nine months also reflects higher commissions, premium taxes and general and administrative expenses associated with business growth. Unfavorable prior year reserve development included in claims and expenses was $273.5 million for the 2003 nine months compared to $472.5 million in 2002 ($147.9 million after the benefit related to recoveries under the Citigroup indemnification agreement and after tax). The 2002 nine months unfavorable prior year reserve development included $395.0 million of asbestos incurred losses ($97.5 million after the benefit related to recoveries under the Citigroup indemnification agreement and after tax) compared to no asbestos incurrals in the 2003 nine months. The most significant component in the 2003 nine months prior year reserve development was $269.1 million related to Gulf reserve strengthening for a line of business that insured residual values of leased vehicles and that was placed in runoff in late 2001. The Gulf reserve strengthening in the first quarter of 2003 was in addition to the other Commercial Lines prior year reserve development which was a net charge of $4.5 million in the 2003 nine months. These other Commercial Lines charges include a second quarter $30.0 million addition to the allowance for uncollectible reinsurance recoverables, as well as other reserve strengthening in other lines of business during the 2003 nine month period. These charges were partially offset by a first quarter net prior year reserve development benefit of $70.7 million, primarily related to property coverages. Catastrophe losses, net of reinsurance, were $107.3 million in the 2003 nine months ($69.8 million net of tax and reinsurance) compared to no catastrophe losses in the 2002. The 2003 catastrophe losses were primarily due to Hurricane Isabel in the third quarter, severe storms in the second quarter in a number of Southern and Midwestern states and a severe winter storm in Colorado in the first quarter.

GAAP combined ratios before policyholder dividends for Commercial Lines were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Loss and LAE ratio[(1)]	**66.2%**	71.5%	**70.4%**	72.5%
Underwriting expense ratio	**27.1**	26.6	**26.8**	26.6
Commercial Lines GAAP combined ratio	**93.3%**	98.1%	**97.2%**	99.1%

(1) Net of the Citigroup indemnification agreement in 2002.

The 4.8 point improvement in the 2003 third quarter GAAP combined ratio before policyholder dividends resulted from premium rate increases that exceeded loss costs and lower prior year reserve development partially offset by higher catastrophe losses in the 2003 third quarter compared to none in the 2002 third quarter. The 1.9 point improvement in the 2003 nine months GAAP combined ratio before policyholder dividends resulted from premium rate increases that exceeded loss cost trends partially offset by slightly higher prior year reserve development and higher catastrophe losses in the 2003 nine months compared to none in the prior year period. The increase in the underwriting expense ratio is primarily due to higher contingent commissions that result from improved underwriting performance.

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Personal Lines

Personal Lines revenues and operating income were as follows:

(in millions)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Revenues	**$1,342.6**	$1,220.5	**$3,898.4**	$3,558.7
Operating income	**$ 88.2**	$ 92.0	**$ 307.5**	$ 233.2

Revenues increased $122.1 million or 10% and $339.7 million or 10% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002. The increase in revenues resulted primarily from growth in earned premiums due to renewal price increases as well as increased business volumes and strong retention. Renewal price change for Personal Lines products represents the estimated average change in premium on policies that renew, including rate and exposure changes, versus the average premium on those same policies for their prior term. Net investment income increased in the 2003 third quarter compared to the 2002 third quarter while net investment income for the 2003 nine months decreased compared to the 2002 nine months.

Operating income decreased $3.8 million or 4% in the 2003 third quarter from the 2002 comparable period. Underwriting performance benefited from the favorable but moderating rate environment in both automobile and property and a moderation in the increase in loss costs. Underwriting performance in the 2003 third quarter was unfavorably impacted by catastrophe losses of $60.0 million compared to $11.1 million in the prior year quarter. Also impacting underwriting performance was favorable prior year reserve development in the 2003 third quarter of $24.8 million ($38.1 million pretax) versus $2.0 million ($3.1 million pretax) of unfavorable prior year reserve development in the prior year quarter. In addition, after tax net investment income of $65.5 million was $4.0 million higher than the 2002 third quarter.

Operating income increased $74.3 million or 32% in the 2003 nine months from the 2002 comparable period. Underwriting performance benefited from the favorable but moderating rate environment in both automobile and property and a moderation in the increase in loss costs. Underwriting performance in the 2003 nine months was unfavorably impacted by catastrophe losses of $129.0 million compared to $35.8 million in the prior year period. Also impacting underwriting performance was favorable prior year reserve development in the 2003 nine months of $71.9 million ($110.6 million pretax) versus $7.9 million ($12.1 million pretax) of unfavorable prior year reserve development in the prior year period. In addition, after tax net investment income of $196.3 million was $9.2 million lower than the 2002 nine months.

Personal Lines revenues were as follows:

(in millions)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Earned premiums	**$1,232.3**	$1,117.5	**$3,563.4**	$3,215.8
Net investment income	**89.8**	83.4	**270.1**	283.0
Other revenues	**20.5**	19.6	**64.9**	59.9
Personal Lines revenues	**$1,342.6**	$1,220.5	**$3,898.4**	$3,558.7

Earned premiums increased $114.8 million or 10% and $347.6 million or 11% in the 2003 third quarter and nine months, respectively, from the comparable periods of 2002. The increase in earned premiums in the 2003 second quarter and nine months was primarily due to higher rates as well as increased business volumes and strong retention.

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Net investment income increased $6.4 million or 8% in the 2003 third quarter from the comparable period of 2002. This increase was due to higher average invested assets in the 2003 third quarter resulting from strong operating cash flows and higher returns in the Company s private equity and arbitrage fund investments, partially offset by lower average yields on fixed maturities. The decrease in yields reflected the lower interest rate environment, a higher proportion of tax exempt investments and a reduction in average duration. Pretax investment yields declined to 5.2% in the 2003 third quarter from 5.5% in the 2002 comparable period. Net investment income decreased $12.9 million or 5% in the 2003 nine months from the nine months of 2002, due to the lower interest rate environment, a higher proportion of tax exempt investments and a reduction in average duration, along with lower returns in the Company s private equity and real estate equity investments, partially offset by higher returns in arbitrage fund investments. Pretax investment yields declined to 5.3% in the 2003 nine months from 5.9% in the 2002 nine months. The lower average yield was partially offset by the benefit of higher average invested assets that resulted from strong cash flows from underwriting.

Personal Lines net written premiums by product line were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2003**	**2002**	**2003**	**2002**
Automobile	**$ 796.3**	$ 741.8	**$2,310.6**	$2,143.5
Homeowners and Other	**559.5**	476.2	**1,506.5**	1,285.9
Total net written premiums	**$1,355.8**	$1,218.0	**$3,817.1**	$3,429.4

The increase in net written premiums of $137.8 million or 11% and $387.7 million or 11% in the 2003 third quarter and nine months, respectively, was due to rate increases and higher business volumes in both the Automobile and Homeowners and Other lines of business.

Automobile net written premiums increased $54.5 million or 7% and $167.1 million or 8% in the 2003 third quarter and nine months, respectively from the 2002 comparable periods. Renewal price change increases for standard voluntary business averaged 6% for both the 2003 third quarter and nine months, two percentage points below the third quarter and nine months of 2002. Policy retention levels for standard voluntary business remained favorable and averaged 81%, up one percentage point from the prior year quarter and nine months. Retention for Personal Lines products represents the estimated percentage of policies from the prior period renewed in the current period.

Homeowners and Other net written premiums increased $83.3 million or 17% and $220.6 million or 17% in the 2003 third quarter and nine months, respectively from the 2002 comparable periods. Renewal price change increases averaged 11% for both the 2003 third quarter and nine months, compared to 15% in the third quarter and nine months of 2002. The higher level of renewal price change increases in the prior year periods was mostly attributable to rate increases in Texas. Retention levels also remained favorable and averaged 81%, up one percentage point from the prior year quarter and nine months.

Production through the Company s independent agents in Personal Lines, which represents over 82% of Personal Lines total net written premiums, was up 11% to $1.110 billion and to $3.130 billion in both the 2003 third quarter and nine months, respectively. Production through other channels, which include affinity and joint marketing arrangements, was up 10% to $245.5 million and to $686.7 million for both the 2003 third quarter and nine months, respectively.

Personal Lines claims and expenses were as follows:

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(in millions)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Claims and claim adjustment expenses	**$ 907.7**	$ 806.7	**$2,566.4**	$2,410.7
Amortization of deferred acquisition costs	**208.1**	187.7	**587.3**	543.1
General and administrative expenses	**102.3**	95.8	**304.0**	279.0
Personal Lines claims and expenses	**$1,218.1**	$1,090.2	**$3,457.7**	$3,232.8

Personal Lines claims and expenses increased $127.9 million or 12% and $224.9 million or 7% in the 2003 third quarter and nine months, respectively, from the 2002 comparable periods. The 2003 increase was primarily attributed to the effect of increased loss costs and higher catastrophe losses partially offset by favorable prior year reserve development. The 2003 third quarter and nine months also reflects higher general and administrative expenses associated with business growth. The 2003 third quarter and nine months includes $38.1 million and $110.6 million, respectively, of favorable prior year reserve development versus unfavorable prior year reserve development of $3.1 million and $12.1 million in the 2002 third quarter and nine months. The 2003 favorable prior year reserve development primarily related to property business written in 2002 and to a lesser degree automobile business written in prior years. Catastrophe losses, net of tax and reinsurance, were $60.0 million and $129.0 million in the 2003 third quarter and nine months compared to $11.1 million and $35.8 million in the comparable periods of 2002. Catastrophe losses in 2003 were primarily due to winter storms in the Mid-Atlantic states, the Northeast and Colorado in the first quarter, hail, ice storms and tornados in the second quarter and primarily due to Hurricane Isabel in the third quarter. Catastrophe losses in 2002 were primarily due to winter storms in the Midwest and New York in the first quarter and wind and hailstorms in the mid Atlantic region in the second and third quarters.

GAAP combined ratios for Personal Lines were as follows:

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Loss and LAE ratio	**73.7%**	72.2%	**72.0%**	75.0%
Underwriting expense ratio	**25.2**	25.4	**25.0**	25.6
Personal Lines GAAP combined ratio	**98.9%**	97.6%	**97.0%**	100.6%

The 1.3 point deterioration in the 2003 third quarter GAAP combined ratio resulted from higher catastrophe losses, partially offset by premium rate increases that exceeded loss costs and favorable prior year reserve development compared to unfavorable prior year reserve development in the 2002 third quarter. The 3.6 point improvement in the 2003 nine months GAAP combined ratio resulted from premium rate increases that exceeded loss costs and favorable prior year reserve development compared to unfavorable prior year reserve development in the corresponding prior year periods, partially offset by higher catastrophes. The improvement in the underwriting expense ratio was primarily due to the benefits of the favorable rate environment and further expense leverage.

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Interest Expense and Other

Interest Expense and Other revenues and operating loss were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2003	2002	2003	2002
Revenues	**$ 0.2**	$ (0.4)	**$ 1.9**	$ 0.6
Operating loss	**$ (25.3)**	$ (26.6)	**$ (88.2)**	$ (72.5)

The expense of $25.3 million for the 2003 third quarter for Interest Expense and Other decreased from $26.6 million in the 2002 third quarter primarily due to lower interest expense, partially offset by higher shareholder services costs incurred as a result of being an independent company following the spin off from Citigroup. The expense of $88.2 million for the 2003 nine months increased from $72.5 million in the comparable prior year period, primarily due to higher interest costs and higher shareholder services costs. After-tax interest expense was $23.9 million and $82.1 million in the 2003 third quarter and nine months, respectively, compared to $25.5 million and $73.9 million in the 2002 comparable periods. The decrease in interest expense for the 2003 third quarter was due to refinancing activities in the first quarter of 2003 which resulted in lower average interest rates on outstanding debt. The increase in interest expense in the 2003 nine months was primarily due to the impact of refinancing activities which included temporary financing of $550.0 million first obtained in December 2002 in connection with the fourth quarter 2002 asbestos reserve strengthening and $1.400 billion of senior notes issued on March 11, 2003. The proceeds from this note issuance were used to prepay, in full, a $500.0 million note to Citigroup on March 11, 2003, and to redeem $900.0 million of trust preferred securities on April 9, 2003. For additional information see Liquidity and Capital Resources.

ASBESTOS CLAIMS AND LITIGATION

The Company believes that the property and casualty insurance industry has suffered from judicial interpretations and other trends that have attempted to maximize insurance availability for asbestos claims, from both a coverage and liability standpoint, far beyond the intent of the contracting parties. These policies generally were issued prior to 1980. As a result, the Company continues to experience an increase in the number of asbestos claims being tendered to the Company by the Company s policyholders (which includes others seeking coverage under a policy) including claims against the Company s policyholders by individuals who do not appear to be impaired by asbestos exposure. Factors underlying these increases include more intensive advertising by lawyers seeking asbestos claimants, the increasing focus by plaintiffs on new and previously peripheral defendants and an increase in the number of entities seeking bankruptcy protection as a result of asbestos-related liabilities. In addition to contributing to the increase in 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 Company is currently involved in coverage litigation concerning a number of policyholders who have filed for bankruptcy and who have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage as described generally in the next paragraph. See Legal Proceedings. During 2002 and continuing into 2003, the trends described above have accelerated. Accordingly, there is a high degree of uncertainty with respect to future exposure from asbestos claims. See Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.

Increasingly, policyholders have been asserting that their claims for asbestos-related insurance are not subject to aggregate limits on coverage and that each individual bodily injury claim should be treated as a separate occurrence under the policy. The Company expects this trend to continue. It is difficult to predict whether these policyholders will be successful on both issues or whether the Company will be successful in asserting additional defenses. To the extent both issues are resolved in policyholders favor and other additional Company defenses are not successful, the Company s coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per occurrence limits and the number of asbestos bodily injury claims against the policyholders. Accordingly, it is difficult to predict the ultimate size of the claims for coverage not subject to aggregate limits.

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 could result in settlements for larger amounts than originally anticipated. As in the past, the Company will

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continue to pursue settlement opportunities. For a discussion of settlement activities with PPG Industries, Inc. see note 12 to the condensed consolidated financial statements.

In addition, proceedings have been launched directly against insurers, including the Company, challenging insurers conduct in respect of asbestos claims, including in some cases with respect to previous settlements. The Company anticipates the filing of other direct actions against insurers, including the Company, in the future. Particularly in light of jurisdictional issues, 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. See Legal Proceedings.

Because each policyholder presents different liability and coverage issues, the Company generally evaluates the exposure presented by each policyholder on a policyholder-by-policyholder basis. In the course of this evaluation, the Company considers: 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 each 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. Once the gross ultimate exposure for indemnity and related claim adjustment expense is determined for each policyholder by each policy year, the Company calculates a ceded reinsurance projection based on any applicable facultative and treaty reinsurance, as well as past ceded experience. Adjustments to the ceded projections also occur due to actual ceded claim experience and reinsurance collections. Conventional actuarial methods are not utilized to establish asbestos reserves. The Company s evaluations have not resulted in any meaningful data from which an average asbestos defense or indemnity payment may be determined.

The Company also compares its historical direct and net loss and expense paid experience, year-by-year, to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid activity. There has been an acceleration in recent years in the amount of payments, including those from prior settlements of coverage disputes entered into between the Company and certain of its policyholders. For the 2003 nine months, approximately 55% of total paid losses relate to policyholders with whom the Company previously entered into settlement agreements that limit the Company s liability compared to 59% for the 2002 nine months. Net asbestos losses paid were $356.5 million for the nine months of 2003 compared to $265.1 million for the nine months of 2002 reflective of the items described above and consistent with Company expectations based upon the Company s fourth quarter 2002 asbestos study.

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

(at and for the nine months ended September 30, in millions)	2003	2002
Beginning reserves:		
Direct	**$4,287.1**	$1,046.0
Ceded	**(882.8)**	(225.6)
Net	**3,404.3**	820.4
Incurred losses and loss expenses:		
Direct [1]		442.3
Ceded		(47.3)
Accretion of discount:		
Direct	**18.9**	
Ceded	**(0.3)**	
Losses paid:		
Direct	**421.3**	300.0
Ceded	**(64.8)**	(34.9)
Ending reserves:		
Direct	**3,884.7**	1,188.3
Ceded	**(818.3)**	(238.0)
Net	**$3,066.4**	$ 950.3

(1) Includes $245.0 million related to asbestos incurrals subject to the Citigroup indemnification agreement in 2002.

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ENVIRONMENTAL CLAIMS AND LITIGATION

The Company continues to receive claims from policyholders which 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, or 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-1970s. 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 Company s reserves for environmental claims are not established on a claim-by-claim basis. The Company carries an aggregate bulk reserve for all of the Company s environmental claims that are in dispute, until the dispute is resolved. This bulk reserve is established and adjusted based upon the aggregate volume of in-process environmental claims and the Company s experience in resolving those claims. At September 30, 2003, approximately 74% of the net environmental reserve (approximately $196.8 million), is carried in a bulk reserve and includes unresolved and incurred but not reported environmental claims for which the Company has not received any specific claims as well as for the anticipated cost of coverage litigation disputes relating to these claims. The balance, approximately 26% of the net environmental reserve (approximately $68.4 million), consists of case reserves for resolved claims. Net environmental losses paid were $120.3 million and $104.1 million for the nine months ended September 30, 2003 and 2002, respectively. The amount of environmental losses paid tends to fluctuate by quarter and is impacted by the timing and terms of settlement agreements reached with policyholders.

The Company s reserving methodology is preferable to one based on identified claims because the resolution of environmental exposures by the Company generally occurs by settlement on a policyholder-by-policyholder basis as opposed to a claim-by-claim basis. Generally, the settlement between the Company and the policyholder extinguishes any obligation the Company may have under any policy issued to the policyholder for past, present and future environmental liabilities as well as extinguishes 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. Provisions of these agreements also include appropriate indemnities and hold harmless provisions to protect the Company. The Company s general purpose in executing these agreements is to reduce the Company s potential environmental exposure and eliminate the risks presented by coverage litigation with the policyholder and related costs.

In establishing environmental reserves, the Company evaluates the exposure presented by each policyholder and the anticipated cost of resolution, if any, for each policyholder on a regular basis. In the course of this analysis, the Company considers the probable liability, available coverage, relevant judicial interpretations and historical value of similar exposures. In addition, the Company considers the many variables presented, such as the nature of the alleged activities of the policyholder at each site; the allegations of environmental harm at each site; the number of sites; the total number of potentially responsible parties at each site; the nature of environmental harm and the corresponding remedy at each site; the nature of government enforcement activities at each site; the ownership and general use of each site; the overall nature of the insurance relationship between the Company and the policyholder, including the role of any umbrella or excess insurance the Company has issued to the policyholder; the involvement of other insurers; the potential for other available coverage, including the number of years of coverage; the role, if any, of non-environmental claims or potential non-environmental claims, in any resolution

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process; and the applicable law in each jurisdiction. Conventional actuarial techniques are not used to estimate these reserves.

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.

Over the past three years, the Company has experienced a substantial reduction in the number of policyholders with pending coverage litigation disputes, and a continued reduction in the number of policyholders tendering for the first time an environmental remediation-type claim to the Company. The number of policyholders with active environmental claims has remained relatively level.

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

(at and for the nine months ended September 30, in millions)	2003	2002
Beginning reserves:		
Direct	**$447.8**	$478.8
Ceded	**(62.3)**	(82.8)
Net	**385.5**	396.0
Incurred losses and loss expenses:		
Direct		49.6
Ceded		0.5
Losses paid:		
Direct	**148.8**	121.1
Ceded	**(28.5)**	(17.0)
Ending reserves:		
Direct	**299.0**	407.3
Ceded	**(33.8)**	(65.3)
Net	**$265.2**	$342.0

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UNCERTAINTY REGARDING ADEQUACY OF ASBESTOS AND ENVIRONMENTAL RESERVES

As a result of the processes and procedures described above, management believes that the reserves carried for asbestos and environmental claims at September 30, 2003 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 presently not possible to estimate the ultimate exposure for asbestos and environmental claims and related litigation. As a result, the reserve is subject to revision as new information becomes available or as information is reevaluated in light of evolving circumstances. The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in major litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in asbestos and environmental claims which cannot now be anticipated, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of some disputes pertaining to the amount of available coverage for asbestos claims in a manner inconsistent with the Company s previous assessment of these claims, the number and outcome of direct actions against the Company, and future developments pertaining to the Company s ability to recover reinsurance for asbestos and environmental claims. It is also not possible to predict changes in the legal and legislative environment and their impact on the future development of asbestos and environmental claims. This development will be affected by future court decisions and interpretations, as well as changes in applicable legislation. It is also difficult to predict the ultimate outcome of large coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. Also see Legal Proceedings.

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the current related reserves. In addition, the Company s estimate of 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 operating results and financial condition in future periods.

LIQUIDITY AND CAPITAL RESOURCES

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

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Net cash flows provided by operating activities totaled $2.886 billion and $2.191 billion in the nine months of 2003 and 2002, respectively. The 2003 net cash flows provided by operating activities benefited from premium rate increases and the receipt of $360.7 million from Citigroup related to recoveries under the asbestos indemnification agreement in the first quarter of 2003 and $530.9 million of federal income taxes refunded from the Company s net operating loss carryback in the second quarter of 2003.

Net cash flows used in investing activities totaled $1.744 billion in the 2003 nine months and $1.641 billion in the 2002 nine months. The 2003 net cash flows used in investing activities primarily reflects the investing of net cash from operating activities of $2.886 billion. This was offset, in part, by sales of securities to fund net payment activity related to debt and TIGHI s junior subordinated debt securities held by subsidiary trusts of $771.6 million. In addition, cash was used to pay quarterly dividends to shareholders of $201.4 million. The 2002 nine months net cash flows used in investing activities principally reflects investing of net cash from operating activities of $2.191 billion and the receipt of $4.090 billion from the first quarter 2002 initial public offering and the concurrent issuance of $867.0 million of convertible notes payable, partially offset by the repayment of $5.299 billion of notes to a former affiliate.

Net cash flows are generally invested in marketable securities. The Company closely monitors the duration of these investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company s liabilities. As the Company s investment strategy focuses on asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations and/or rebalance asset portfolios. The Company s invested assets at September 30, 2003 totaled $37.793 billion, of which 91% was invested in fixed maturity and short-term investments, 2% in common stocks and other equity securities, and 7% in other investments. The average duration of fixed maturities and short-term securities, net of securities lending activities and net receivables and payables on investment sales and purchases was 4.3 as of September 30, 2003, a 0.7 decrease from 5.0 as of December 31, 2002. The reduction in average duration resulted from the investment of underwriting cash flows and investment maturities and sales proceeds in shorter-term investments along with the sale of certain treasury futures contracts.

An investment in a debt or equity security is impaired if its fair value falls below its book value and the decline is considered to be other-than-temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time and the extent to which fair value has been below cost; the financial condition and near-term prospects of the issuer; and the Company s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Company will not be able to collect all amounts due under the security s contractual terms. Equity investments are impaired when it becomes apparent that the Company will not recover its cost over the expected holding period.

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

- Identification and evaluation of investments which have possible indications of impairment;
- Analysis of investments with gross unrealized investment losses that have fair values less than 80% of amortized cost during successive quarterly periods over a rolling one-year period;
- Review of investment advisor(s) recommendations for other-than-temporary impairments based on the investee s current financial condition, liquidity, near-term recovery prospects and other factors, as well as consideration of other investments that were not recommended for other-than-temporary impairments;
- Discussion of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to qualify as having other-than-temporary impairments and those that would not support other-than-temporary impairment;
- Determination of the status of each analyzed investment as other-than-temporary or not, with documentation of the rationale for the decision.

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Impairment charges of $7.2 million and $84.3 million were recognized in net income during the third quarter and nine months of 2003, respectively, compared to $34.7 million and $223.6 million in the comparable periods of 2002.

The amortized cost and fair value of fixed maturities and equity securities were as follows:

(at September 30, 2003, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities	**$30,298.2**	**$1,621.8**	**$60.3**	**$31,859.7**
Equity securities	**712.7**	**65.7**	**15.7**	**762.7**
Total	**$31,010.9**	**$1,687.5**	**$76.0**	**$32,622.4**

(at December 31, 2002, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities	$28,877.8	$1,408.8	$283.4	$30,003.2
Equity securities	861.9	28.6	39.0	851.5
Total	$29,739.7	$1,437.4	$322.4	$30,854.7

At September 30, 2003, the gross unrealized investment loss for fixed maturities and equity securities where fair value is less than 80% of amortized cost were as follows:

	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
(in millions)	Less than 3 Months	Greater Than 3 Months Less Than 6 Months	Greater Than 6 Months Less Than 12 Months	Greater Than 12 Months	Total
Fixed maturities	**$0.5**	**$4.5**	**$**	**$**	**$5.0**
Equity securities	**2.3**				**2.3**
Total	**$2.8**	**$4.5**	**$**	**$**	**$7.3**

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

	2003		
(in millions)	1st Quarter	2nd Quarter	3rd Quarter

Fixed maturities	**$46.6**	**$14.8**	**$6.3**
Equity securities	**0.1**	**4.1**	**0.9**
Real estate	**11.5**		
Total	**$58.2**	**$18.9**	**$7.2**

	2002			
(in millions)	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Fixed maturities	$59.0	$117.8	$33.3	$50.3
Equity securities	3.2	2.4	1.4	1.1
Real estate		6.5		9.1
Total	$62.2	$126.7	$34.7	$60.5

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TPC is a holding company whose principal asset is the capital stock of Travelers Insurance Group Holdings Inc. (TIGHI) and its insurance operating subsidiaries. TIGHI s insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of insurance regulatory authorities. A maximum of $727.7 million will be available by the end of 2003 for such dividends without prior approval of the Connecticut Insurance Department. TIGHI received $651.0 million of dividends from its insurance subsidiaries during the first nine months of 2003. In the fourth quarter, certain TIGHI insurance subsidiaries declared dividends aggregating $276.0 million for which all required 2003 approvals were received.

At September 30, 2003, total cash and short-term invested assets aggregating $69.4 million were held at TPC and TIGHI. These liquid assets were primarily funded by dividends received from the Company s operating subsidiaries. These liquid assets, combined with other sources of funds available to TPC, primarily additional dividends from the Company s operating subsidiaries, are considered sufficient to meet the liquidity requirements of TPC and TIGHI. These liquidity requirements include primarily, shareholder dividends and debt service.

Net cash flows used in financing activities totaled $1.025 billion and $554.1 million in the nine months of 2003 and 2002, respectively. Cash flows used in financing activities in the 2003 nine months are primarily attributable to the redemption of $900.0 million aggregate principal amount of TIGHI s junior subordinated debt securities held by subsidiary trusts, the repayment of $700.0 million of notes payable to a former affiliate and the repayment of $550.0 million of short-term debt. Funds used in these repayments were primarily provided by TPC s issuance of $1.4 billion of senior notes on March 11, 2003 and by cash flows provided by operating activities. These refinancing activities were initiated with the objective of lowering the average interest rate on the Company s total outstanding debt. The 2003 nine months also reflect the issuance of $550.0 million of short-term Floating Rate Notes which were used to repay the $550.0 million Promissory Note due in January 2004. Net cash flows used in financing activities in the nine months of 2003 also included dividends paid to shareholders of $201.4 million. The 2002 nine months cash flows used in financing activities reflects the repayment of $5.299 billion of notes payable to a former affiliate. These payments were partially offset by the receipt of $4.090 billion from the first quarter 2002 initial public offering and the concurrent issuance of $867.0 million of convertible notes payable.

In December 2002, the Company entered into a loan agreement with an unaffiliated lender and borrowed $550.0 million under a Promissory Note due in January 2004. The Promissory Note carried a variable interest rate of LIBOR plus 25 basis points per annum. On February 5, 2003, the Company issued $550.0 million of Floating Rate Notes due in February 2004. The proceeds from these notes were used to prepay the $550.0 million due on the Promissory Note. The Floating Rate Notes also carried a variable interest rate of LIBOR plus 25 basis points per annum. On March 14, 2003 and June 17, 2003, the Company repurchased $75.0 million and $24.0 million, respectively, of the Floating Rate Notes at par plus accrued interest. The remaining $451.0 million were repaid on September 5, 2003.

On March 11, 2003, TPC issued $1.4 billion of senior notes comprised of $400.0 million of 3.75% senior notes due March 15, 2008, $500.0 million of 5.00% senior notes due March 15, 2013 and $500.0 million of 6.375% senior notes due March 15, 2033. The notes pay interest semi-annually on March 15 and September 15 of each year, beginning September 15, 2003, are senior unsecured obligations and rank equally with all of TPC s other senior unsecured indebtedness. TPC may redeem some or all of the notes prior to maturity by paying a make-whole premium based on U.S. Treasury rates. The net proceeds from the sale of these notes were contributed to its primary subsidiary, TIGHI, so that TIGHI could repay $500.0 million of indebtedness to Citigroup and to redeem $900.0 million aggregate principal amount of TIGHI s junior subordinated debt securities held by subsidiary trusts. These trusts, in turn, used these funds to redeem $900.0 million of preferred capital securities on April 9, 2003.

These senior notes were sold to qualified institutional buyers as defined under Rule 144A under the Securities Act of 1933 (the Securities Act) and outside the United States in reliance on Regulation S under the Securities Act. Accordingly, the notes (the restricted notes) were not registered under the Securities Act or any state securities laws and could not be transferred or resold except pursuant to certain exemptions. As part of this offering, TPC agreed to file a registration statement under the Securities Act to permit the exchange of the notes for registered notes (the Exchange Notes) having terms identical to those of the senior notes described above (Exchange Offer). On April 14, 2003, TPC initiated the Exchange Offer pursuant to a Form S-4 that was filed with the Securities and Exchange Commission. Accordingly, each series of Exchange Notes has been registered under the Securities Act, and the transfer restrictions and registration rights relating to the restricted notes do not apply to the Exchange Notes.

Effective April 17, 2003, TPC entered into the following line of credit agreements with Citibank, a subsidiary of Citigroup, TPC s former parent: (i) a $250.0 million 45-month revolving line of credit (the 45-Month Line of Credit), and (ii) a $250.0 million 364-day revolving line of credit (the 364-Day Line of Credit and, together with the 45-Month Line of Credit, the Lines of Credit). TPC may, with Citibank s consent, extend the commitment of the 364-Day Line of Credit for additional 364-day periods under the same terms and conditions. TPC has the option, provided there is no default or event of default, to convert outstanding advances under the 364-Day Line of Credit at the commitment termination date to a term loan maturing no later than one year from the commitment termination date. Borrowings under the Lines of Credit may be made, at TPC s option, at a variable interest rate equal to either the lender s base rate plus an applicable margin or at LIBOR plus an applicable margin. Each Line of Credit includes a commitment fee and, for any date on which advances exceed 50% of the total commitment, a utilization fee. The applicable margin and the rates on which the commitment fee and the utilization fee are based vary based upon TPC s long-term senior unsecured non-credit-enhanced debt ratings. Each Line of Credit requires TPC to comply with various covenants, including the maintenance of minimum statutory capital and surplus of $5.5 billion and a maximum ratio of total consolidated debt to total capital of 45%. In addition, an event of default will occur if there is a change in control (as defined in the Lines of Credit agreements) of TPC. At September 30, 2003, the Company was in compliance with these financial covenants.

There were no amounts outstanding under the Lines of Credit at September 30, 2003. Previous lines of credit between TIGHI and Citigroup have been terminated.

Contractual obligations at September 30, 2003 included the following:

Payments Due by Period (in millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt	$1,774.4	$ 4.0	$161.1	$405.1	$1,204.2
Convertible junior subordinated notes payable	892.5				892.5
Convertible notes payable	49.7				49.7
Operating leases	287.3	79.0	153.9	34.5	19.9
Total	$3,003.9	$83.0	$315.0	$439.6	$2,166.3

In the normal course of business, the Company has unfunded commitments to partnerships in which it invests. These commitments were $670.5 million and $864.3 million at September 30, 2003 and December 31, 2002, respectively.

On July 23, 2003, the Company s Board of Directors declared a quarterly dividend of $0.08 per share on class A and class B common stock, payable August 29, 2003, to shareholders of record on August 5, 2003. The third quarter 2003 dividend represents an increase from $0.06 per share paid in the first and second quarters of 2003. Also, on October 23, 2003, the Company s Board of Directors declared a quarterly dividend of $0.08 per share on class A and class B common stock, payable November 26, 2003, to shareholders of record on November 5, 2003. The declaration and payment of future dividends to holders of the Company s common stock will be at the discretion of the Company s Board of Directors and will depend upon many factors, including the Company s financial condition, earnings, capital requirements of TPC s operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant.

On September 25, 2002, the Board of Directors approved a $500.0 million share repurchase program. Purchases of class A and class B stock may be made from time to time in the open market, and it is expected that funding for the program will principally come from dividends from TPC s operating subsidiaries. Shares repurchased are reported as treasury stock in the consolidated balance sheet. During the third quarter of 2003, TPC repurchased approximately 2.6 million shares of class A common stock at a total cost of $40.0 million representing the first acquisition of shares under this program. During the 2003 nine months, 1.4 million shares of common stock were acquired from employees as treasury stock to cover payroll withholding taxes in connection with the vesting of restricted stock awards and exercises of stock options.

TPC has the option to defer interest payments on its convertible junior subordinated notes for a period not exceeding 20 consecutive quarterly interest periods. If TPC elects to defer interest payments on the notes, it will not be permitted, with limited exceptions, to pay dividends on its common stock during a deferral period.

Ratings are an important factor in setting the Company s competitive position in the insurance marketplace. The Company receives ratings from the following major rating agencies: A.M. Best Co., Fitch Ratings, Moody s Investors Service and Standard & Poor s Corp. Rating agencies typically issue two types of ratings: Claims-paying (or financial strength) ratings which assess an insurer s ability to meet its financial obligations to policyholders and debt ratings which assess a company s prospects for repaying its debts and assist lenders in setting interest rates and terms for a company s short and long term borrowing needs. The system and number rating categories can vary widely from rating agency to rating agency. Customers usually focus on claims-paying ratings, while creditors look at debt ratings. Investors use both to evaluate a company s overall financial strength. The ratings issued on the Company or its subsidiaries by any of these agencies are announced publicly and are available on the Company s website and from the agencies.

The Company s insurance operations could be negatively impacted by a downgrade in one or more of the Company s financial strength ratings. If this were to occur, there could be a reduced demand for certain products in certain markets. Additionally, the Company s ability to access the capital markets could be impacted and higher borrowing costs may be incurred. In June 2003, A. M. Best Co. lowered the claims-paying rating of the Company s Gulf Insurance Pool to A from A+. The Company does not expect this rating change to have any significant impact on the operations of Gulf or the Company. The Company s ratings remained unchanged during the third quarter of 2003. On October 10, 2003, Standard & Poor s Corp. assigned a rating of AA- to Travelers Casualty and Surety Company of Europe, Limited (Travelers Europe) based on Travelers Europe s surety writings being supported by reinsurance with Travelers Casualty and Surety Company of America which is also rated AA-by Standard and Poor s Corp.

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CRITICAL ACCOUNTING POLICIES

The Company considers its most significant accounting policies to be those applied to unpaid claim and claim adjustment liabilities and related reinsurance recoverables. Further explanation of how management applies its judgment is included throughout this Management s Discussion and Analysis and in the notes to the consolidated financial statements for the year ended December 31, 2002 included in the Company s Form 10-K.

Total claims and claim adjustment expense reserves were $33.854 billion at September 30, 2003. The Company maintains property and casualty loss reserves to cover estimated ultimate unpaid liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. Reserves do not represent an exact calculation of liability, but instead represent estimates, generally utilizing actuarial projection techniques at a given accounting date. Management considers actuarial estimates, current conditions and trends, as well as past company and certain industry experience in establishing reserve estimates. These reserve estimates are expectations of what the ultimate settlement and administration of claims will cost based on the Company s assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the policyholder event and the time it is actually reported to the insurer. Reserve estimates are continually refined in a regular ongoing process as historical loss experience develops and additional claims are reported and settled. Adjustments to reserves are reflected in the results of the periods in which the estimates are changed. Because establishment of reserves is an inherently uncertain process involving estimates, currently established reserves may not be sufficient. If estimated reserves are insufficient, the Company will incur additional income statement charges.

During 2001, the Company recorded a charge of $489.5 million representing the estimated loss for both reported and unreported claims incurred and related claim adjustment expenses, net of reinsurance recoverables, related to the terrorist attack on September 11th. The associated reserves and related reinsurance recoverables represent the estimated ultimate net costs of all incurred claims and claim adjustment expenses related to the attack. Since the reserves and related reinsurance recoverables are based on estimates, the ultimate net liability may be more or less than such amounts.

Some of the Company s loss reserves are for environmental and asbestos claims and related litigation which aggregated $3.332 billion at September 30, 2003. While the analyses of asbestos claims and associated liabilities and of environmental claims considered the inconsistencies of court decisions as to coverage, plaintiffs expanded theories of liability, and the risks inherent in major litigation and other uncertainties, in the opinion of the Company s management it is possible that the outcome of the continued uncertainties regarding asbestos-related 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 and financial condition. See the preceding discussion of Asbestos Claims and Litigation and Environmental Claims and Litigation.

Total reinsurance recoverables were $10.906 billion at September 30, 2003 and included $1.978 billion from servicing carrier arrangements with various involuntary assigned risk pools. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business.

The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. In addition, in the ordinary course of business, the Company may become involved in coverage disputes with its reinsurers. In recent quarters, the Company has experienced an increase in the frequency of these reinsurance coverage disputes. Some of these disputes could result in lawsuits and arbitrations brought by or against the reinsurers to determine the Company s rights and obligations under various reinsurance agreements. The Company employs dedicated specialists and aggressive strategies to manage reinsurance collections and disputes.

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The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company s ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, applicable coverage defenses and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. During the 2003 nine months, the Company increased the allowance by $35.1 million which included $30.0 million in the second quarter in connection with the Company s ongoing review process. The allowance for estimated uncollectible reinsurance recoverables was $364.2 million at September 30, 2003. Changes in these estimates could result in additional income statement charges.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See notes 2 and 3 to the condensed consolidated financial statements for a discussion of recently issued or adopted accounting pronouncements.

OUTLOOK

There are currently state and federal proposals to reform the existing system for handling asbestos claims and related litigation. One prominent proposal is the creation of a federal asbestos claims trust to compensate asbestos claimants. The trust would primarily be funded by former manufacturers, distributors and sellers of asbestos products and insurers. At this time it is not possible to predict the likelihood or timing of enactment of such proposals. The effect on the Company, if these proposals are enacted, will depend upon various factors including the size of the compensation fund, the portion allocated to insurers and the formula for allocating contributions among insurers. If legislative reform proposals are enacted, the Company s contribution allocation could be larger than its current asbestos reserves.

FORWARD-LOOKING STATEMENTS

This report contains, and oral statements by management of the Company may contain, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Specifically, the Company may have forward-looking statements about the Company s results of operations, financial condition, liquidity, and the sufficiency of the Company s asbestos reserves, premium growth from acquired renewal rights and the integration of those businesses into the Company s business, and the Company s estimate of catastrophe losses from Hurricane Isabel under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere.

Many risks and uncertainties may impact the matters addressed in these forward-looking statements. Actual results may differ materially from those expressed or implied. In particular, the sufficiency of the Company s asbestos reserves, as well as the Company s results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the Company s asbestos reserves, is subject to a number of potential adverse developments including, among others, adverse developments involving asbestos claims and related litigation, the willingness of parties, including the Company, to settle disputes, the impact of aggregate policy coverage limits, and the impact of bankruptcies of various asbestos producers and related businesses. In addition, any premium growth and incremental net income resulting from the renewal rights transactions depend, among other things, on the Company s ability to renew a sufficient dollar amount of the policies and otherwise successfully integrate the business acquired into the Company s organization. This, in turn is subject to a number of other factors, including, among others, the willingness of policyholders to renew their policies with the Company, and the willingness of their insurance agents and brokers to recommend that policyholders renew with the Company. Also, the Company s actual catastrophe losses from Hurricane Isabel may be more or less than the Company s estimates.

Some of the other factors that could cause actual results to differ include, but are not limited to, the following: the Company s inability to obtain price increases due to competition or otherwise; the performance of the Company s investment portfolios, which could be adversely impacted by adverse developments in U.S. and global financial markets, interest rates and rates of inflation; weakening U.S. and global economic conditions; insufficiency of, or changes in, loss reserves; the occurrence of catastrophic events, both natural and man-made, including terrorist acts, with a severity or frequency exceeding the Company s expectations; exposure to, and adverse developments involving, environmental claims and related litigation; the impact of claims related to exposure to potentially harmful products or substances, including, but not limited to, lead paint, silica and other potentially harmful substances, adverse changes in loss cost trends, including inflationary pressures in medical costs and auto and home repair costs; developments relating to coverage and liability for mold claims; the effects of corporate bankruptcies on surety bond claims; adverse developments in the cost, availability and/or ability to collect reinsurance; the ability of the Company s subsidiaries to pay dividends to the Company; adverse outcomes in legal proceedings; judicial expansion of policy coverage and the impact of new theories of liability; the impact of legislative actions, including federal and state legislation related to asbestos liability reform; larger than expected assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company s claims-paying and financial strength ratings; the loss or significant restriction on the Company s ability to use credit scoring in the pricing and underwriting of Personal Lines policies; and amendments to, and changes to the risk-based capital requirements. 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 these forward-looking statements.

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SIGNATURES

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

Travelers Property Casualty Corp.

Date: February 10, 2004 by /s/ Jay S. Benet

Jay S. Benet
Chief Financial Officer
(Principal Financial Officer)

Date: February 10, 2004 by /s/ Douglas K. Russell

Douglas K. Russell
Chief Accounting Officer
(Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1.1	Restated Certificate of Incorporation of the Company, effective July 18, 2003, consolidating all prior amendments, was filed as exhibit 3.1.1 to the Company s Form 10-Q for the quarter ended June 30, 2003, and is incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Company, effective January 23, 2003, was filed as Exhibit 3.2 to the Company s annual report on Form 10-K for the fiscal year ended December 31, 2002, and is incorporated herein by reference.
31.1	Certification of Robert I. Lipp, 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, Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Robert I. Lipp, 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, Chief Financial Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.

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

Filed herewith