TRAVELERS COMPANIES, INC.
Form 10-Q
April 21, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from to

Commission file number: 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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

485 Lexington Avenue

New York, NY 10017

(Address of principal executive offices) (Zip Code)

(917) 778-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of the Registrant s Common Stock, without par value, outstanding at April 15, 2011 was 418,872,308.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended March 31, 2011

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PART 1 FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

(in millions, except per share amounts)

For the three months ended March 31,		2011		2010
Revenues				
Premiums	**$**	**5,371**	$	5,230
Net investment income		**779**		753
Fee income		**74**		79
Net realized investment gains		**20**		25
Other revenues		**34**		32
Total revenues		**6,278**		6,119
Claims and expenses				
Claims and claim adjustment expenses		**3,382**		3,388
Amortization of deferred acquisition costs		**948**		929
General and administrative expenses		**883**		847
Interest expense		**96**		98
Total claims and expenses		**5,309**		5,262
Income before income taxes		**969**		857
Income tax expense		**130**		210
Net income	**$**	**839**	$	647
Net income per share				
Basic	**$**	**1.94**	$	1.26
Diluted	**$**	**1.92**	$	1.25
Weighted average number of common shares outstanding				
Basic		**428.2**		508.4
Diluted		**434.4**		515.1

For the three months ended March 31,		2011		2010
Net Realized Investment Gains (Losses)				
Other-than-temporary impairment losses:				
Total gains (losses)	**$**	**2**	**$**	(1)

Non-credit component of impairments recognized in accumulated other changes in equity from nonowner sources		**(6)**		(9)
Other-than-temporary impairment losses		**(4)**		(10)
Other net realized investment gains		**24**		35
Net realized investment gains	**$**	**20**	$	25

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Fixed maturities, available for sale, at fair value (including $164 and $186 subject to securities lending) (amortized cost $59,720 and $60,170)	**$ 62,276**	$ 62,820
Equity securities, available for sale, at fair value (cost $421 and $372)	**583**	519
Real estate	**866**	838
Short-term securities	**5,652**	5,616
Other investments	**3,014**	2,929
Total investments	**72,391**	72,722
Cash	**239**	200
Investment income accrued	**736**	791
Premiums receivable	**5,668**	5,497
Reinsurance recoverables	**11,786**	11,994
Ceded unearned premiums	**911**	813
Deferred acquisition costs	**1,801**	1,782
Deferred tax asset	**357**	493
Contractholder receivables	**5,271**	5,343
Goodwill	**3,365**	3,365
Other intangible assets	**482**	502
Other assets	**2,245**	2,154
Total assets	**$ 105,252**	$ 105,656
Liabilities		
Claims and claim adjustment expense reserves	**$ 51,440**	$ 51,606
Unearned premium reserves	**11,116**	10,921
Contractholder payables	**5,271**	5,343
Payables for reinsurance premiums	**513**	407
Debt	**6,611**	6,611
Other liabilities	**5,058**	5,293
Total liabilities	**80,009**	80,181
Shareholders equity		
Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)	**66**	68
Common stock (1,748.6 shares authorized; 420.3 and 434.6 shares issued and outstanding)	**20,370**	20,162
Retained earnings	**19,538**	18,847
Accumulated other changes in equity from nonowner sources	**1,272**	1,255
Treasury stock, at cost (316.3 and 296.6 shares)	**(16,003)**	(14,857)
Total shareholders equity	**25,243**	25,475
Total liabilities and shareholders equity	**$ 105,252**	$ 105,656

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the three months ended March 31,	2011	2010
Convertible preferred stock savings plan		
Balance, beginning of year	$ 68	$ 79
Redemptions during period	(2)	(2)
Balance, end of period	66	77
Common stock		
Balance, beginning of year	20,162	19,593
Employee share-based compensation	156	119
Compensation amortization under share-based plans and other changes	52	50
Balance, end of period	20,370	19,762
Retained earnings		
Balance, beginning of year	18,847	16,315
Net income	839	647
Dividends	(156)	(169)
Other	8	(1)
Balance, end of period	19,538	16,792
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	1,255	1,219
Change in net unrealized gain on investment securities:		
Having no credit losses recognized in the consolidated statement of income	(60)	54
Having credit losses recognized in the consolidated statement of income	18	23
Net change in unrealized foreign currency translation and other changes	59	(25)
Balance, end of period	1,272	1,271
Treasury stock (at cost)		
Balance, beginning of year	(14,857)	(9,791)
Treasury shares acquired share repurchase authorization	(1,100)	(1,400)
Net shares acquired related to employee share-based compensation plans	(46)	(40)
Balance, end of period	(16,003)	(11,231)
Total common shareholders equity	25,177	26,594
Total shareholders equity	$ 25,243	$ 26,671
Common shares outstanding		
Balance, beginning of year	434.6	520.3
Treasury shares acquired share repurchase authorization	(18.9)	(27.0)
Net shares issued under employee share-based compensation plans	4.6	3.7

Balance, end of period		**420.3**		497.0
Summary of changes in equity from nonowner sources				
Net income	**$**	**839**	$	647
Other changes in equity from nonowner sources, net of tax		**17**		52
Total changes in equity from nonowner sources	**$**	**856**	$	699

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

For the three months ended March 31,	2011	2010
Cash flows from operating activities		
Net income	**$ 839**	$ 647
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	**(20)**	(25)
Depreciation and amortization	**208**	216
Deferred federal income tax expense	**153**	76
Amortization of deferred acquisition costs	**948**	929
Equity in income from other investments	**(122)**	(45)
Premiums receivable	**(167)**	(97)
Reinsurance recoverables	**218**	86
Deferred acquisition costs	**(964)**	(939)
Claims and claim adjustment expense reserves	**(251)**	(224)
Unearned premium reserves	**175**	86
Other	**(384)**	(179)
Net cash provided by operating activities	**633**	531
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**1,849**	1,229
Proceeds from sales of investments:		
Fixed maturities	**490**	1,646
Equity securities	**8**	19
Real estate		9
Other investments	**161**	114
Purchases of investments:		
Fixed maturities	**(1,824)**	(2,175)
Equity securities	**(51)**	(5)
Real estate	**(30)**	(3)
Other investments	**(107)**	(104)
Net (purchases) sales of short-term securities	**(31)**	202
Securities transactions in course of settlement	**134**	95
Other	**(69)**	(75)
Net cash provided by investing activities	**530**	952
Cash flows from financing activities		
Dividends paid to shareholders	**(155)**	(168)
Issuance of common stock employee share options	**168**	123
Treasury stock acquired share repurchase authorization	**(1,104)**	(1,407)
Treasury stock acquired net employee share-based compensation	**(44)**	(38)
Excess tax benefits from share-based payment arrangements	**7**	4
Net cash used in financing activities	**(1,128)**	(1,486)
Effect of exchange rate changes on cash	**4**	(1)

Net increase (decrease) in cash		**39**		(4)
Cash at beginning of year		**200**		255
Cash at end of period	**$**	**239**	$	251
Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**112**	$	44
Interest paid	**$**	**35**	$	63

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company s management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. Certain reclassifications have been made to the 2010 consolidated financial statements and notes to conform to the 2011 presentation. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s 2010 Annual Report on Form 10-K.

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

Adoption of Accounting Standards Updates

Intangibles Goodwill and Other

In December 2010, the Financial Accounting Standards Board (FASB) issued updated guidance that modifies the goodwill impairment test. Under the updated guidance, goodwill is tested for impairment using a two-step process. The first step is to identify potential impairments by comparing the estimated fair value of a reporting unit to its carrying value, including goodwill. If the carrying value of a reporting unit exceeds the estimated fair value, a second step is performed to measure the amount of impairment, if any. The second step is to determine the implied fair value of the reporting unit s goodwill, measured in the same manner as goodwill is recognized in a business combination, and compare the implied fair value with the carrying amount of the goodwill. If the carrying amount exceeds the implied fair value of the reporting unit s goodwill, an impairment loss is recognized in an amount equal to that excess.

The updated guidance requires that, if the carrying amount of a reporting unit becomes zero or negative, the second step of the impairment test must be performed when it is more likely than not that a goodwill impairment loss exists. In considering whether it is more likely than not that an impairment loss exists, a company is required to evaluate qualitative factors, including the factors presented in existing guidance that trigger an interim impairment test of goodwill (e.g., a significant adverse change in business climate or an anticipated sale of a reporting unit). The provisions of the guidance were effective for annual and interim periods beginning after December 15, 2010. The adoption of this guidance in January 2011 did not have any effect on the Company s results of operations, financial position or liquidity.

Accounting Standards Not Yet Adopted

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued updated guidance to address diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs.

The updated guidance is effective for periods beginning after December 15, 2011. The adoption of this guidance is not expected to have any impact on the Company s results of operations, financial position or liquidity.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Unaudited), Continued

Creditors Evaluation of Whether a Restructuring is a Troubled Debt Restructuring

In April 2011, the FASB issued updated guidance to clarify whether a modification or restructuring of a receivable is considered a troubled debt restructuring, i.e., whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties. A modification or restructuring that is considered a troubled debt restructuring will result in the creditor having to account for the receivable as being impaired and will also result in additional disclosure of the creditors troubled debt restructuring activities. The updated guidance is effective for the first interim period beginning on or after June 15, 2011 and is to be applied on a retrospective basis to the beginning of the annual period of adoption.

The adoption of this guidance is not expected to have a material impact on the Company s results of operations, financial position or liquidity.

Nature of Operations

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

Business Insurance

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

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

Financial, Professional & International Insurance

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

On November 3, 2010, an indirect subsidiary of the Company entered into a definitive agreement to commence a joint venture with J. Malucelli Participações em Seguros e Resseguros S.A, a Brazilian company (J. Malucelli), through the acquisition of approximately 43% of J. Malucelli s common stock. J. Malucelli is currently the market leader in surety in Brazil based on market share. The transaction is subject to customary closing conditions and is expected to be finalized in the second quarter of 2011.

Personal Insurance

The Personal Insurance segment writes virtually all types of property and casualty insurance covering personal risks. The primary coverages in Personal Insurance are automobile and homeowners insurance sold to individuals.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION

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

(for the three months ended March 31, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2011				
Premiums	**$ 2,745**	**$ 773**	**$ 1,853**	**$ 5,371**
Net investment income	**556**	**106**	**117**	**779**
Fee income	**74**			**74**
Other revenues	**9**	**7**	**18**	**34**
Total operating revenues (1)	**$ 3,384**	**$ 886**	**$ 1,988**	**$ 6,258**
Operating income (1)	**$ 604**	**$ 120**	**$ 170**	**$ 894**
2010				
Premiums	$ 2,628	$ 824	$ 1,778	$ 5,230
Net investment income	528	111	114	753
Fee income	79			79
Other revenues	6	6	20	32
Total operating revenues (1)	$ 3,241	$ 941	$ 1,912	$ 6,094
Operating income (1)	$ 567	$ 86	$ 59	$ 712

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

	Three Months Ended March 31,	
(in millions)	**2011**	**2010**
Revenue reconciliation		
Earned premiums		
Business Insurance:		
Workers compensation	**$ 680**	$ 600
Commercial automobile	**473**	471
Property	**401**	423
General liability	**428**	425
Commercial multi-peril	**762**	710
Other	**1**	(1)
Total Business Insurance	**2,745**	2,628
Financial, Professional & International Insurance:		
Fidelity and surety	**234**	247
General liability	**208**	226
International	**298**	318
Other	**33**	33
Total Financial, Professional & International Insurance	**773**	824
Personal Insurance:		
Automobile	**915**	904
Homeowners and other	**938**	874
Total Personal Insurance	**1,853**	1,778
Total earned premiums	**5,371**	5,230
Net investment income	**779**	753
Fee income	**74**	79
Other revenues	**34**	32
Total operating revenues for reportable segments	**6,258**	6,094
Net realized investment gains	**20**	25
Total consolidated revenues	**$ 6,278**	$ 6,119

Income reconciliation, net of tax				
Total operating income for reportable segments	**$**	**894**	$	712
Interest Expense and Other (1)		**(68)**		(81)
Total operating income		**826**		631
Net realized investment gains		**13**		16
Total consolidated net income	**$**	**839**	$	647

(1) The primary component of Interest Expense and Other is after-tax interest expense of $62 million and $64 million for the three months ended March 31, 2011 and 2010, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)	March 31, 2011	December 31, 2010
Asset reconciliation:		
Business Insurance	**$ 77,687**	$ 78,165
Financial, Professional & International Insurance	**13,702**	13,461
Personal Insurance	**13,271**	13,423
Total assets for reportable segments	**104,660**	105,049
Other assets (1)	**592**	607
Total consolidated assets	**$ 105,252**	$ 105,656

(1) The primary components of other assets at both dates were other intangible assets and deferred tax assets.

3. INVESTMENTS

Fixed Maturities

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

(at March 31, 2011, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	**$ 2,112**	**$ 82**	**$**	**$ 2,194**
Obligations of states, municipalities and political subdivisions:				
Pre-refunded	**6,678**	**490**	**1**	**7,167**
All other	**30,831**	**1,079**	**129**	**31,781**
Total obligations of states, municipalities and political subdivisions	**37,509**	**1,569**	**130**	**38,948**
Debt securities issued by foreign governments	**2,013**	**42**	**6**	**2,049**

Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		**3,701**		**240**		**12**		**3,929**
All other corporate bonds		**14,352**		**822**		**54**		**15,120**
Redeemable preferred stock		**33**		**3**				**36**
Total	**$**	**59,720**	**$**	**2,758**	**$**	**202**	**$**	**62,276**

(at December 31, 2010, in millions)		**Amortized Cost**		**Gross Unrealized Gains**		**Losses**		**Fair Value**
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$	1,914	$	94	$		$	2,008
Obligations of states, municipalities and political subdivisions:								
Pre-refunded		6,787		505		1		7,291
All other		31,277		1,121		154		32,244
Total obligations of states, municipalities and political subdivisions		38,064		1,626		155		39,535
Debt securities issued by foreign governments		2,156		50		4		2,202
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		3,952		248		36		4,164
All other corporate bonds		14,051		876		51		14,876
Redeemable preferred stock		33		2				35
Total	$	60,170	$	2,896	$	246	$	62,820

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Pre-refunded bonds of $7.17 billion and $7.29 billion at March 31, 2011 and December 31, 2010, respectively, were bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest.

Equity Securities

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

(at March 31, 2011, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	**$ 247**	**$ 116**	**$**	**$ 363**
Non-redeemable preferred stock	**174**	**49**	**3**	**220**
Total	**$ 421**	**$ 165**	**$ 3**	**$ 583**

(at December 31, 2010, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 198	$ 106	$	$ 304
Non-redeemable preferred stock	174	46	5	215
Total	$ 372	$ 152	$ 5	$ 519

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at March 31, 2011 and December 31, 2010, the aggregate fair value and gross unrealized losses by length of time those securities have been continuously in an unrealized loss position.

(at March 31, 2011, in millions)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized	12 months or longer Fair Value	12 months or longer Gross Unrealized	Total Fair Value	Total Gross Unrealized

		Losses		Losses		Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 473	$	$	$	$ 473	$
Obligations of states, municipalities and political subdivisions	5,359	122	141	8	5,500	130
Debt securities issued by foreign governments	444	6	6		450	6
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	149	1	196	11	345	12
All other corporate bonds	1,678	37	111	17	1,789	54
Redeemable preferred stock						
Total fixed maturities	8,103	166	454	36	8,557	202
Equity securities						
Common stock	33		1		34	
Non-redeemable preferred stock	21		48	3	69	3
Total equity securities	54		49	3	103	3
Total	$ 8,157	$ 166	$ 503	$ 39	$ 8,660	$ 205

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

	Less than 12 months		12 months or longer		Total	
(at December 31, 2010, in millions)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Fixed maturities						
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 155	$	$	$	$ 155	$
Obligations of states, municipalities and political subdivisions	5,854	149	139	6	5,993	155
Debt securities issued by foreign governments	419	4	13		432	4
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	77	1	420	35	497	36
All other corporate bonds	1,255	32	185	19	1,440	51
Redeemable preferred stock			3		3	
Total fixed maturities	7,760	186	760	60	8,520	246
Equity securities						
Common stock	3		3		6	
Non-redeemable preferred stock	45	1	49	4	94	5
Total equity securities	48	1	52	4	100	5
Total	$ 7,808	$ 187	$ 812	$ 64	$ 8,620	$ 251

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at March 31, 2011, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
(in millions)	**3 Months or Less**	**Greater Than 3 Months, 6 Months or Less**	**Greater Than 6 Months, 12 Months or Less**	**Greater Than 12 Months**	**Total**
Fixed maturities					
Mortgage-backed securities	**$**	**$**	**$**	**$**	**$**
Other	**3**			**10**	**13**

Total fixed maturities	**3**			**10**	**13**
Equity securities					
Total	**$ 3**	**$**	**$**	**$ 10**	**$ 13**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Impairment Charges

Impairment charges included in net realized investment gains in the consolidated statement of income were as follows:

(for the three months ended March 31, in millions)	2011	2010
Fixed maturities		
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$	$
Obligations of states, municipalities and political subdivisions		
Debt securities issued by foreign governments		
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2	1
All other corporate bonds	2	5
Redeemable preferred stock		
Total fixed maturities	4	6
Equity securities		
Common stock		1
Non-redeemable preferred stock		
Total equity securities		1
Other investments		3
Total	$ 4	$ 10

The following tables present a roll-forward of the credit component of other-than-temporary impairments (OTTI) on fixed maturities recognized in the consolidated statement of income for which a portion of the OTTI was recognized in accumulated other changes in equity from nonowner sources:

(for the three months ended March 31, 2011, in millions)	Cumulative OTTI Credit Losses Recognized for	Additions for OTTI Securities Where No Credit Losses	Additions for OTTI Securities Where Credit	Reductions Due to Sales/Defaults of Credit-	Adjustments to Book Value of Credit-Impaired	Cumulative OTTI Credit Losses Recognized for

	Securities Held, Beginning of Year	Were Previously Recognized	Losses Have Been Previously Recognized	Impaired Securities	Securities due to Changes in Cash Flows	Securities Still Held, End of Period
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ **47**	$	$ **2**	$	$	$ **49**
All other corporate bonds	**88**	**1**	**1**	**(1)**	**1**	**90**
Total fixed maturities	$ **135**	$ **1**	$ **3**	$ **(1)**	$ **1**	$ **139**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(for the three months ended March 31, 2010, in millions)	Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Year	Additions for OTTI Securities Where No Credit Losses Were Previously Recognized	Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized	Reductions Due to Sales/Defaults of Credit-Impaired Securities	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 46	$	$ 1	$	$	$ 47
All other corporate bonds	93		2	(4)	1	92
Total fixed maturities	$ 139	$	$ 3	$ (4)	$ 1	$ 139

4. FAIR VALUE MEASUREMENTS

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

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

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

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

Valuation of Investments Reported at Fair Value in Financial Statements

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Fixed Maturities

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

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

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

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

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

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

Equities Public Common and Preferred

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Other Investments

At March 31, 2011 and December 31, 2010, the Company held investments in non-public common and preferred equity securities, with fair value estimates of $63 million and $57 million, respectively, reported in other investments, where the fair value estimate is determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the total fair value estimate for all of these investments at March 31, 2011 and December 31, 2010 in the amount disclosed in Level 3. The Company holds investments in various publicly-traded securities which are reported in other investments. The $43 million and $42 million fair value of these investments at March 31, 2011 and December 31, 2010, respectively, was disclosed in Level 1. These investments include securities in the Company s trading portfolio, mutual funds and other small holdings.

Derivatives

At March 31, 2011 and December 31, 2010, the Company held $31 million and $37 million, respectively, of convertible bonds containing embedded conversion options that are valued separately from the host bond contract in the amount disclosed in Level 2 fixed maturities.

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company s financial assets and financial liabilities are measured on a recurring basis at March 31, 2011 and December 31, 2010.

(at March 31, 2011, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 2,194	$ 2,182	$ 12	$

Obligations of states, municipalities and political subdivisions	**38,948**		**38,926**	**22**
Debt securities issued by foreign governments	**2,049**		**2,049**	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**3,929**		**3,928**	**1**
All other corporate bonds	**15,120**		**14,973**	**147**
Redeemable preferred stock	**36**	**35**	**1**	
Total fixed maturities	**62,276**	**2,217**	**59,889**	**170**
Equity securities				
Common stock	**363**	**340**	**23**	
Non-redeemable preferred stock	**220**	**133**	**87**	
Total equity securities	**583**	**473**	**110**	
Other investments	**106**	**43**		**63**
Total	**$ 62,965**	**$ 2,733**	**$ 59,999**	**$ 233**

The Company did not have significant transfers between Levels 1 and 2 during the quarter ended March 31, 2011.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

(at December 31, 2010, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 2,008	$ 1,991	$ 17	$
Obligations of states, municipalities and political subdivisions	39,535		39,433	102
Debt securities issued by foreign governments	2,202		2,202	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	4,164		4,163	1
All other corporate bonds	14,876		14,749	127
Redeemable preferred stock	35	34	1	
Total fixed maturities	62,820	2,025	60,565	230
Equity securities				
Common stock	304	281	23	
Non-redeemable preferred stock	215	131	84	
Total equity securities	519	412	107	
Other investments	99	42		57
Total	$ 63,438	$ 2,479	$ 60,672	$ 287

The Company did not have significant transfers between Levels 1 and 2 during the year ended December 31, 2010.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

The following tables present the changes in the Level 3 fair value category during the three months ended March 31, 2011 and the twelve months ended December 31, 2010.

(in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2010	$ 230	$ 57	$ 287
Total realized and unrealized investment gains (losses):			
Included in realized investment gains (losses) (1)		3	3
Included in increases (decreases) in accumulated other changes in equity from nonowner sources		5	5
Purchases, sales and settlements/maturities:			
Purchases	35	2	37
Sales		(4)	(4)
Settlements/maturities	(16)		(16)
Gross transfers into Level 3	8		8
Gross transfers out of Level 3 (2)	(87)		(87)
Balance at March 31, 2011	$ 170	$ 63	$ 233
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	$	$	$

(1) Includes impairments on investments held at the end of the period as well as amortization on fixed maturities.

(2) During the quarter ended March 31, 2011, approximately $81 million of municipal fixed maturity securities were valued using observable market data which resulted in a transfer out of Level 3 into Level 2. In prior periods, these securities were valued internally using unobservable inputs.

(in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2009	$ 240	$ 154	$ 394

Total realized and unrealized investment gains (losses):			
Included in realized investment gains (losses) (1)	5	2	7
Included in increases (decreases) in accumulated other changes in equity from nonowner sources	10	11	21
Purchases, sales and settlements/maturities:			
Purchases	44	3	47
Sales	(9)	(113)	(122)
Settlements/maturities	(41)		(41)
Gross transfers into Level 3	13		13
Gross transfers out of Level 3	(32)		(32)
Balance at December 31, 2010	$ 230	$ 57	$ 287
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	$	$	$

(1) Includes impairments on investments held at the end of the period as well as amortization on fixed maturities.

The Company had no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the three months ended March 31, 2011 or twelve months ended December 31, 2010.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Financial Instruments Disclosed, But Not Carried, At Fair Value

The Company uses various financial instruments in the normal course of its business. The Company s insurance contracts are excluded from fair value of financial instruments accounting guidance and, therefore, are not included in the amounts discussed below.

The carrying values of cash, short-term securities and investment income accrued approximated their fair values.

The carrying values of $609 million and $647 million of financial instruments classified as other assets approximated their fair values at March 31, 2011 and December 31, 2010, respectively. The carrying values of $3.55 billion and $3.75 billion of financial instruments classified as other liabilities at March 31, 2011 and December 31, 2010, respectively, also approximated their fair values. Fair value is determined using various methods including discounted cash flows, as appropriate for the various financial instruments.

The carrying value and fair value of the Company s debt at March 31, 2011 was $6.61 billion and $7.07 billion, respectively. The respective totals at December 31, 2010 were $6.61 billion and $7.21 billion. The Company utilized a pricing service to estimate fair value measurements for approximately 96% and 94% of its debt, other than commercial paper, at March 31, 2011 and December 31, 2010, respectively. The pricing service utilizes market quotations for debt that have quoted prices in active markets. For the small amount of the Company s debt securities for which a pricing service is not used, the Company utilizes pricing estimates from a nationally recognized broker/dealer to estimate fair value. If estimates of fair value are unavailable from the pricing service or the broker/dealer, the Company produces an estimate of fair value based on internally developed valuation techniques which are based on a discounted cash flow methodology and incorporates all available relevant observable market inputs.

The fair value of commercial paper included in debt outstanding at March 31, 2011 and December 31, 2010 approximated its book value because of its short-term nature.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company s goodwill by segment at March 31, 2011 and December 31, 2010:

(in millions)	March 31, 2011	December 31, 2010
Business Insurance	**$ 2,168**	$ 2,168
Financial, Professional & International Insurance	**557**	557
Personal Insurance	**613**	613
Other	**27**	27
Total	**$ 3,365**	$ 3,365

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

Other Intangible Assets

The following presents a summary of the Company s other intangible assets by major asset class at March 31, 2011 and December 31, 2010:

(at March 31, 2011, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	**$ 935**	**$ 797**	**$ 138**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	**191**	**63**	**128**
Total intangible assets subject to amortization	**1,126**	**860**	**266**
Intangible assets not subject to amortization	**216**		**216**
Total other intangible assets	**$ 1,342**	**$ 860**	**$ 482**

(at December 31, 2010, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	$ 935	$ 783	$ 152
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	191	57	134
Total intangible assets subject to amortization	1,126	840	286
Intangible assets not subject to amortization	216		216
Total other intangible assets	$ 1,342	$ 840	$ 502

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

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

(for the three months ended March 31, in millions)	2011	2010
Customer-related	**$ 14**	$ 17
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**6**	7
Total amortization expense	**$ 20**	$ 24

Intangible asset amortization expense is estimated to be $49 million for the remainder of 2011, $52 million in 2012, $45 million in 2013, $43 million in 2014 and $23 million in 2015.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. SHARE REPURCHASE AUTHORIZATION

The Company s board of directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company s financial position, earnings, catastrophe losses, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions), market conditions and other factors. In January 2011, the board of directors approved a share repurchase authorization that added an additional $5 billion of repurchase capacity to the $1.51 billion of capacity remaining at December 31, 2010. During the three months ended March 31, 2011, the Company repurchased 18.9 million shares under its share repurchase authorization, for a total cost of approximately $1.10 billion. The average cost per share repurchased was $58.23. At March 31, 2011, the Company had $5.41 billion of capacity remaining under the share repurchase authorization.

7. CHANGES IN EQUITY FROM NONOWNER SOURCES

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

	Three Months Ended March 31,	
(in millions, after-tax)	**2011**	**2010**
Net income	**$ 839**	$ 647
Change in net unrealized gain on investments:		
Having no credit losses recognized in the consolidated statement of income	**(60)**	54
Having credit losses recognized in the consolidated statement of income	**18**	23
Other changes	**59**	(25)
Total changes in equity from nonowner sources	**$ 856**	$ 699

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

8. EARNINGS PER SHARE

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

(in millions, except per share amounts)	Three Months Ended March 31, 2011	2010
Basic		
Net income, as reported	**$ 839**	$ 647
Preferred stock dividends	**(1)**	(1)
Participating share-based awards allocated income	**(7)**	(5)
Net income available to common shareholders basic	**$ 831**	$ 641
Diluted		
Net income available to common shareholders	**$ 831**	$ 641
Effect of dilutive securities:		
Convertible preferred stock	**1**	1
Net income available to common shareholders diluted	**$ 832**	$ 642
Common Shares		
Basic		
Weighted average shares outstanding	**428.2**	508.4
Diluted		
Weighted average shares outstanding	**428.2**	508.4
Weighted average effects of dilutive securities:		
Stock options and performance shares	**4.6**	4.8
Convertible preferred stock	**1.6**	1.9
Total	**434.4**	515.1
Net Income per Common Share		
Basic	**$ 1.94**	$ 1.26
Diluted	**$ 1.92**	$ 1.25

9. SHARE-BASED INCENTIVE COMPENSATION

The following presents information for fully vested stock option awards at March 31, 2011:

Stock Options	Number	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value ($ in millions)
Vested at end of period (1)	**15,159,159**	**$ 46.34**	**4.5 years**	**$ 199**
Exercisable at end of period	**11,648,399**	**$ 45.54**	**3.4 years**	**$ 162**

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

9. SHARE-BASED INCENTIVE COMPENSATION, Continued

The total compensation cost for all share-based incentive compensation awards recognized in earnings was $37 million and $42 million for the three months ended March 31, 2011 and 2010, respectively. The related tax benefits recognized in earnings was $13 million and $15 million for the three months ended March 31, 2011 and 2010, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at March 31, 2011 was $189 million, which is expected to be recognized over a weighted-average period of 2.2 years. The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at December 31, 2010 was $112 million, which was expected to be recognized over a weighted-average period of 1.7 years.

10. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

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

	Pension Plans		**Postretirement Benefit Plans**	
(for the three months ended March 31, in millions)	**2011**	**2010**	**2011**	**2010**
Net Periodic Benefit Cost:				
Service cost	**$ 25**	$ 24	**$**	$
Interest cost on benefit obligation	**34**	32	**3**	4
Expected return on plan assets	**(46)**	(46)		
Amortization of unrecognized:				
Prior service benefit		(1)		
Net actuarial loss	**19**	15		
Net benefit expense	**$ 32**	$ 24	**$ 3**	$ 4

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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

Asbestos- and Environmental-Related Proceedings

In the ordinary course of its insurance business, the Company receives claims for insurance arising under policies issued by the Company asserting alleged injuries and damages from asbestos- and environmental-related exposures that are the subject of related coverage litigation, including, among others, the litigation described below. The Company continues to be subject to aggressive asbestos-related litigation. The Company is defending asbestos- and environmental-related litigation vigorously and believes that it has meritorious defenses; however, the outcomes of these disputes are uncertain. In this regard, the Company employs dedicated specialists and aggressive resolution strategies to manage asbestos and environmental loss exposure, including settling litigation under appropriate circumstances.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Asbestos Direct Action Litigation In October 2001 and April 2002, two purported class action suits (*Wise v. Travelers* and *Meninger v. Travelers*) were filed against Travelers Property Casualty Corp. (TPC) and other insurers (not including The St. Paul Companies, Inc. (SPC)) in state court in West Virginia. These and other cases subsequently filed in West Virginia were consolidated into a single proceeding in the Circuit Court of Kanawha County, West Virginia. The plaintiffs allege that the insurer defendants engaged in unfair trade practices in violation of state statutes by inappropriately handling and settling asbestos claims. The plaintiffs seek to reopen large numbers of settled asbestos claims and to impose liability for damages, including punitive damages, directly on insurers. Similar lawsuits alleging inappropriate handling and settling of asbestos claims were filed in Massachusetts and Hawaii state courts. These suits are collectively referred to as the Statutory and Hawaii Actions.

In March 2002, the plaintiffs in consolidated asbestos actions pending before a mass tort panel of judges in West Virginia state court amended their complaint to include TPC as a defendant, alleging that TPC and other insurers breached alleged duties to certain users of asbestos products. The plaintiffs seek damages, including punitive damages. Lawsuits seeking similar relief and raising similar allegations, primarily violations of purported common law duties to third parties, have also been asserted in various state courts against TPC and SPC. The claims asserted in these suits are collectively referred to as the Common Law Claims.

The federal bankruptcy court that had presided over the bankruptcy of TPC s former policyholder Johns-Manville Corporation issued a temporary injunction prohibiting the prosecution of the Statutory Actions (but not the Hawaii Actions), the Common Law Claims and an additional set of cases filed in various state courts in Texas and Ohio, and enjoining certain attorneys from filing any further lawsuits against TPC based on similar allegations. Notwithstanding the injunction, additional common law claims were filed against TPC.

In November 2003, the parties reached a settlement of the Statutory and Hawaii Actions. This settlement includes a lump-sum payment of up to $412 million by TPC, subject to a number of significant contingencies. In May 2004, the parties reached a settlement resolving substantially all pending and similar future Common Law Claims against TPC. This settlement requires a payment of up to $90 million by TPC, subject to a number of significant contingencies. Among the contingencies for each of these settlements is a final order of the bankruptcy court clarifying that all of these claims, and similar future asbestos-related claims against TPC, are barred by prior orders entered by the bankruptcy court (the 1986 Orders).

On August 17, 2004, the bankruptcy court entered an order approving the settlements and clarifying that the 1986 Orders barred the pending Statutory and Hawaii Actions and substantially all Common Law Claims pending against TPC (the Clarifying Order). The Clarifying Order also applies to similar direct action claims that may be filed in the future.

On March 29, 2006, the U.S. District Court for the Southern District of New York substantially affirmed the Clarifying Order while vacating that portion of the order that required all future direct actions against TPC to first be approved by the bankruptcy court before proceeding in state or federal court.

Various parties appealed the district court s March 29, 2006 ruling to the U.S. Court of Appeals for the Second Circuit. On February 15, 2008, the Second Circuit issued an opinion vacating on jurisdictional grounds the District Court s approval of the Clarifying Order. On February 29, 2008, TPC and certain other parties to the appeals filed petitions for rehearing and/or rehearing *en banc*, requesting reinstatement of the district court s judgment, which were denied. TPC and certain other parties filed Petitions for Writ of Certiorari in the United States Supreme Court seeking review of the Second Circuit s decision, and on December 12, 2008, the Petitions were granted.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

On June 18, 2009, the Supreme Court ruled in favor of TPC, reversing the Second Circuit s February 15, 2008 decision, finding, among other things, that the 1986 Orders are final and generally bar the Statutory and Hawaii actions and substantially all Common Law Claims against TPC. Further, the Supreme Court ruled that the bankruptcy court had jurisdiction to issue the Clarifying Order. However, since the Second Circuit had not ruled on certain additional issues, principally related to procedural matters and the adequacy of notice provided to certain parties, the Supreme Court remanded the case to the Second Circuit for further proceedings on those specific issues. On October 21, 2009, all but one of the objectors to the Clarifying Order requested that the Second Circuit dismiss their appeal of the order approving the settlement, and that request was granted.

On March 22, 2010, the Second Circuit issued an opinion in which it found that the notice of the 1986 Orders provided to the remaining objector was insufficient to bar contribution claims by that objector against TPC. On April 5, 2010, TPC filed a Petition for Rehearing and Rehearing *En Banc* with the Second Circuit, requesting further review of its March 22, 2010 opinion, which was denied on May 25, 2010. On August 18, 2010, TPC filed a Petition for Writ of Certiorari in the United States Supreme Court seeking review of the Second Circuit s March 22, 2010 opinion, and a Petition for a Writ of Mandamus seeking an order from the Supreme Court requiring the Second Circuit to comply with the Supreme Court s June 18, 2009 ruling in TPC s favor. The Supreme Court denied the Petitions on November 29, 2010.

The plaintiffs in the Statutory and Hawaii actions and the Common Law Claims actions filed Motions to Compel with the bankruptcy court on September 2, 2010 and September 3, 2010, respectively, arguing that all conditions precedent to the settlements have been met and seeking to require TPC to pay the settlement amounts. On September 30, 2010, TPC filed an Opposition to the plaintiffs Motions to Compel on the grounds that the conditions precedent to the settlements, principally the requirement that all contribution claims be barred, have not been met in light of the Second Circuit s March 22, 2010 opinion. On December 16, 2010, the bankruptcy court granted the plaintiffs motions and ruled that TPC was required to fund the settlements. On January 20, 2011, the bankruptcy court entered judgment in accordance with its December 16, 2010 ruling and ordered TPC to pay the settlement amounts plus prejudgment interest. On January 21, 2011, TPC filed an appeal with the U.S. District Court for the Southern District of New York from the bankruptcy court s January 20, 2011 judgment. On January 24, 2011, certain of the plaintiffs in the Common Law Claims actions appealed that portion of the bankruptcy court s January 20, 2011 judgment that denied their request for an order of contempt and for sanctions. The appeals are pending.

SPC, which is not covered by the Manville bankruptcy court rulings or the settlements described above, is a party to pending direct action cases in Texas state court asserting common law claims. All such cases that are still pending and in which SPC has been served are currently on the inactive docket in Texas state court. If any of those cases becomes active, SPC intends to litigate those cases vigorously. SPC was previously a defendant in similar direct actions in Ohio state court. Those actions have all been dismissed following favorable rulings by Ohio trial and appellate courts. From time to time, SPC and/or its subsidiaries have been named in individual direct actions in other jurisdictions.

Outcome and Impact of Asbestos and Environmental Claims and Litigation. Currently, it is not possible to predict legal outcomes and their impact on the future development of claims and litigation relating to asbestos and environmental claims. Any such development will be affected by future court decisions and interpretations, as well as changes in applicable legislation. Because of these uncertainties, additional liabilities may arise for amounts in excess of the current related reserves. In addition, the Company s estimate of ultimate claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company s results of operations in future periods.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Other Proceedings

Broker Anti-Trust Litigation In 2005, four putative class action lawsuits were brought against a number of insurance brokers and insurers, including the Company, by plaintiffs who allegedly purchased insurance products through one or more of the defendant brokers. The plaintiffs alleged that various insurance brokers conspired with each other and with various insurers, including the Company, to artificially inflate premiums, allocate brokerage customers and rig bids for insurance products offered to those customers. To the extent they were not originally filed there, the federal class actions were transferred to the U.S. District Court for the District of New Jersey and were consolidated for pre-trial proceedings with other class actions under the caption *In re Insurance Brokerage Antitrust Litigation*. On August 1, 2005, various plaintiffs, including the four named plaintiffs in the above-referenced class actions, filed an amended consolidated class action complaint naming various brokers and insurers, including the Company, on behalf of a putative nationwide class of policyholders. The complaint included causes of action under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state common law and the laws of the various states prohibiting antitrust violations. The complaint sought monetary damages, including punitive damages and trebled damages, permanent injunctive relief, restitution, including disgorgement of profits, interest and costs, including attorneys fees. All defendants moved to dismiss the complaint for failure to state a claim. After giving plaintiffs multiple opportunities to replead, the court dismissed the Sherman Act claims on August 31, 2007 and the RICO claims on September 28, 2007, both with prejudice, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs appealed the district court s decisions to the U.S. Court of Appeals for the Third Circuit. On August 16, 2010, the Third Circuit affirmed the district court s dismissal of all Sherman Act and RICO claims against certain defendants, including the Company, except for Sherman Act and RICO claims involving the sale of excess casualty insurance through one defendant broker, as well as all state law claims, which they remanded to the district court for further proceedings. On October 1, 2010, defendants, including the Company, filed renewed motions to dismiss the remanded claims. On March 18, 2011, the Company and certain other defendants entered into an agreement with the plaintiffs to settle the lawsuit. The settlement, under which the Company has agreed to pay $6.75 million, is subject to court approval.

Additional individual actions have been brought in state and federal courts against the Company involving allegations similar to those in *In re Insurance Brokerage Antitrust Litigation,* and further actions may be brought. The Company believes that all of these lawsuits have no merit and intends to defend vigorously.

Other In addition to those described above, the Company is involved in numerous lawsuits, not involving asbestos and environmental claims, arising mostly in the ordinary course of business operations, either as a liability insurer defending third-party claims brought against policyholders or as an insurer defending claims brought against it relating to coverage or the Company s business practices. In addition, from time to time, the Company is involved in proceedings addressing disputes with its reinsurers regarding the collection of amounts due under the Company s reinsurance agreements. While the ultimate resolution of these legal proceedings could be material to the Company s results of operations in a future period, in the opinion of the Company s management, none would likely have a material adverse effect on the Company s financial position or liquidity.

Gain Contingency

On August 20, 2010, in a reinsurance dispute in New York state court captioned *United States Fidelity & Guaranty Company v. American Re-Insurance Company, et al*., the trial court granted summary judgment for the Company, and on October 25, 2010, entered judgment awarding the Company $251 million plus pre-judgment interest in the amount of $169 million. United States Fidelity and Guaranty Company is a subsidiary of the Company. The $251 million awarded by the court represents the amount owed to the Company under the terms of the reinsurance agreements and is reported as part of reinsurance recoverables in the Company s consolidated balance sheet. The interest awarded by the Court is treated for accounting purposes as a gain contingency in accordance with FASB Topic 450, *Contingencies,* and accordingly has not been recognized in the Company s consolidated financial statements. Post-judgment interest continues to accrue at the rate of 9 percent (without compounding) on the total judgment of $420 million. The judgment, including the award of interest, has been appealed, and oral argument is scheduled for May 10, 2011. The Company intends to vigorously pursue collection of the judgment.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Other Commitments and Guarantees

Commitments

Investment Commitments The Company has unfunded commitments to private equity limited partnerships and real estate partnerships in which it invests. These commitments totaled $1.23 billion and $1.26 billion at March 31, 2011 and December 31, 2010, respectively. Additionally, in November 2010, an indirect subsidiary of the Company entered into a definitive agreement to commence a joint venture with J. Malucelli Participações em Seguros e Resseguros S.A, a Brazilian company (J. Malucelli), through the acquisition of approximately 43% of J. Malucelli s common stock. J. Malucelli is currently the market leader in surety in Brazil based on market share. The purchase price for this acquisition will be R$625 million Brazilian Reais, plus an additional amount calculated based on a Brazilian inter-bank lending rate (CDI) from January 1, 2011 through the closing date of the transaction. At March 31, 2011, that additional amount, which will continue to accrue until the anticipated closing date in the second quarter of 2011, totaled R$17 million Brazilian Reais. The U.S. dollar equivalent of the purchase price will depend on the exchange rate at closing. At March 31, 2011, the total of R$642 million Brazilian Reais was equivalent to approximately $393 million in U.S. dollars. The transaction is subject to customary closing conditions.

Guarantees

The Company has contingent obligations for guarantees related to letters of credit, issuance of debt securities, certain investments, third-party loans related to certain investments and various indemnifications, including those related to the sale of business entities. The Company also provides standard indemnifications to service providers in the normal course of business. The indemnification clauses are often standard contractual terms. Certain of these guarantees and indemnifications have no stated or notional amounts or limitation to the maximum potential future payments, and, accordingly, the Company is unable to develop an estimate of the maximum potential payments for such arrangements. At March 31, 2011, the maximum amount of the Company s obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was $84 million, approximately $40 million of which would be recoverable from a third party.

In the ordinary course of selling business entities to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the business entities being sold, covenants and obligations of the Company and/or its subsidiaries following the closing, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development, imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, or certain named litigation. Such indemnification provisions generally survive for periods ranging from two years following the applicable closing date to the expiration of the relevant statutes of limitations, although, in some cases, there may be other agreed upon term limitations or no term limitations. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. The maximum amount of the Company s contingent obligation for indemnifications related to the sale of business entities that are quantifiable was $1.35 billion at March 31, 2011, of which $9 million was recognized on the balance sheet at that date.

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

The following consolidating financial statements of the Company have been prepared pursuant to Rule 3-10 of Regulation S-X. These consolidating financial statements have been prepared from the Company s financial information on the same basis of accounting as the consolidated financial statements. The Travelers Companies, Inc. has fully and unconditionally guaranteed certain debt obligations of TPC, its wholly-owned subsidiary, which totaled $1.20 billion at March 31, 2011.

Prior to the merger of TPC and SPC in 2004, TPC fully and unconditionally guaranteed the payment of all principal, premiums, if any, and interest on certain debt obligations of its wholly-owned subsidiary, Travelers Insurance Group Holdings, Inc. (TIGHI). The Travelers Companies, Inc. has fully and unconditionally guaranteed such guarantee obligations of TPC. TPC is deemed to have no assets or operations independent of TIGHI. Consolidating financial information for TIGHI has not been presented herein because such financial information would be substantially the same as the financial information provided for TPC.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,625	$ 1,746	$	$	$ 5,371
Net investment income	532	244	3		779
Fee income	74				74
Net realized investment gains (losses)	9	12	(1)		20
Other revenues	30	4			34
Total revenues	4,270	2,006	2		6,278
Claims and expenses					
Claims and claim adjustment expenses	2,234	1,148			3,382
Amortization of deferred acquisition costs	626	322			948
General and administrative expenses	596	290	(3)		883
Interest expense	18		78		96
Total claims and expenses	3,474	1,760	75		5,309
Income (loss) before income taxes	796	246	(73)		969
Income tax expense (benefit)	196	57	(123)		130
Equity in net income of subsidiaries			789	(789)	
Net income	$ 600	$ 189	$ 839	$ (789)	$ 839

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total gains	$ 2	$	$	$	$ 2
Non-credit component of impairments recognized in accumulated other changes in equity from nonowner sources	(5)	(1)			(6)
Other-than-temporary impairment losses	(3)	(1)			(4)
Other net realized investment gains (losses)	12	13	(1)		24
Net realized investment gains (losses)	$ 9	$ 12	$ (1)	$	$ 20

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2010

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,523	$ 1,707	$	$	$ 5,230
Net investment income	519	231	3		753
Fee income	79				79
Net realized investment gains (losses)	21	14	(10)		25
Other revenues	28	4			32
Total revenues	4,170	1,956	(7)		6,119
Claims and expenses					
Claims and claim adjustment expenses	2,225	1,163			3,388
Amortization of deferred acquisition costs	616	313			929
General and administrative expenses	574	267	6		847
Interest expense	18		80		98
Total claims and expenses	3,433	1,743	86		5,262
Income (loss) before income taxes	737	213	(93)		857
Income tax expense (benefit)	171	49	(10)		210
Equity in net income of subsidiaries			730	(730)	
Net income	$ 566	$ 164	$ 647	$ (730)	$ 647

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total gains (losses)	$ 3	$ (4)	$	$	$ (1)
Non-credit component of impairments recognized in accumulated other changes in equity from nonowner sources	(6)	(3)			(9)
Other-than-temporary impairment losses	(3)	(7)			(10)
Other net realized investment gains (losses)	24	21	(10)		35
Net realized investment gains (losses)	$ 21	$ 14	$ (10)	$	$ 25

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At March 31, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (including $164 subject to securities lending) (amortized cost $59,720)	$ 42,167	$ 20,088	$ 21	$	$ 62,276
Equity securities, available for sale, at fair value (cost $421)	197	288	98		583
Real estate	33	833			866
Short-term securities	1,980	859	2,813		5,652
Other investments	2,044	969	1		3,014
Total investments	46,421	23,037	2,933		72,391
Cash	123	112	4		239
Investment income accrued	503	233			736
Premiums receivable	3,834	1,834			5,668
Reinsurance recoverables	7,821	3,965			11,786
Ceded unearned premiums	693	218			911
Deferred acquisition costs	1,531	270			1,801
Deferred tax asset	198	137	22		357
Contractholder receivables	4,042	1,229			5,271
Goodwill	2,411	954			3,365
Other intangible assets	320	162			482
Investment in subsidiaries			27,861	(27,861)	
Other assets	1,947	285	61	(48)	2,245
Total assets	$ 69,844	$ 32,436	$ 30,881	$ (27,909)	$ 105,252
Liabilities					
Claims and claim adjustment expense reserves	$ 33,679	$ 17,761	$	$	$ 51,440
Unearned premium reserves	7,594	3,522			11,116
Contractholder payables	4,042	1,229			5,271
Payables for reinsurance premiums	292	221			513
Debt	1,189	9	5,461	(48)	6,611
Other liabilities	3,919	952	187		5,058
Total liabilities	50,715	23,694	5,648	(48)	80,009
Shareholders equity					

Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)			66		66
Common stock (1,748.6 shares authorized; 420.3 shares issued and outstanding)		390	20,370	(390)	20,370
Additional paid-in capital	11,135	7,016		(18,151)	
Retained earnings	6,744	765	19,528	(7,499)	19,538
Accumulated other changes in equity from nonowner sources	1,250	571	1,272	(1,821)	1,272
Treasury stock, at cost (316.3 shares)			(16,003)		(16,003)
Total shareholders equity	19,129	8,742	25,233	(27,861)	25,243