TRAVELERS COMPANIES, INC.
Form 10-Q
April 23, 2010
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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, 2010

or

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

For the transition period from to

Commission file number 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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

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 20, 2010 was 495,339,156.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended March 31, 2010

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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,	2010	2009
Revenues		
Premiums	**$ 5,230**	$ 5,301
Net investment income	**753**	542
Fee income	**79**	73
Net realized investment gains (losses)	**25**	(214)
Other revenues	**32**	33
Total revenues	**6,119**	5,735
Claims and expenses		
Claims and claim adjustment expenses	**3,388**	3,190
Amortization of deferred acquisition costs	**929**	944
General and administrative expenses	**847**	782
Interest expense	**98**	92
Total claims and expenses	**5,262**	5,008
Income before income taxes	**857**	727
Income tax expense	**210**	65
Net income	**$ 647**	$ 662
Net income per share		
Basic	**$ 1.26**	$ 1.12
Diluted	**$ 1.25**	$ 1.11
Weighted average number of common shares outstanding		
Basic	**508.4**	584.6
Diluted	**515.1**	590.4

For the three months ended March 31,	2010	2009
Net Realized Investment Gains (Losses)		
Other-than-temporary impairment losses:		
Total losses	**$ (1)**	**$** (184)

Portion of losses recognized in accumulated other changes in equity from nonowner sources		**(9)**		
Other-than-temporary impairment losses		**(10)**		(184)
Other net realized investment gains (losses)		**35**		(30)
Net realized investment gains (losses)	**$**	**25**	$	(214)

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Fixed maturities, available for sale, at fair value (including $83 and $90 subject to securities lending) (amortized cost $62,463 and $63,311)	**$ 65,116**	$ 65,847
Equity securities, available for sale, at fair value (cost $367 and $373)	**463**	451
Real estate	**851**	865
Short-term securities	**4,648**	4,852
Other investments	**2,963**	2,950
Total investments	**74,041**	74,965
Cash	**251**	255
Investment income accrued	**777**	825
Premiums receivable	**5,564**	5,471
Reinsurance recoverables	**12,727**	12,816
Ceded unearned premiums	**997**	916
Deferred acquisition costs	**1,767**	1,758
Deferred tax asset	**560**	672
Contractholder receivables	**5,840**	5,797
Goodwill	**3,365**	3,365
Other intangible assets	**564**	588
Other assets	**2,243**	2,132
Total assets	**$ 108,696**	$ 109,560
Liabilities		
Claims and claim adjustment expense reserves	**$ 52,841**	$ 53,127
Unearned premium reserves	**10,935**	10,861
Contractholder payables	**5,840**	5,797
Payables for reinsurance premiums	**638**	546
Debt	**6,525**	6,527
Other liabilities	**5,246**	5,287
Total liabilities	**82,025**	82,145
Shareholders equity		
Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)	**77**	79
Common stock (1,748.6 shares authorized; 497.0 and 520.3 shares issued and outstanding)	**19,762**	19,593
Retained earnings	**16,792**	16,315
Accumulated other changes in equity from nonowner sources	**1,271**	1,219
Treasury stock, at cost (227.4 and 199.6 shares)	**(11,231)**	(9,791)
Total shareholders equity	**26,671**	27,415
Total liabilities and shareholders equity	**$ 108,696**	$ 109,560

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,	2010	2009
Convertible preferred stock savings plan		
Balance, beginning of year	**$ 79**	$ 89
Redemptions during period	**(2)**	(2)
Balance, end of period	**77**	87
Common stock		
Balance, beginning of year	**19,593**	19,242
Employee share-based compensation	**119**	11
Compensation amortization under share-based plans and other changes	**50**	37
Balance, end of period	**19,762**	19,290
Retained earnings		
Balance, beginning of year	**16,315**	13,314
Net income	**647**	662
Dividends	**(169)**	(178)
Other	**(1)**	7
Balance, end of period	**16,792**	13,805
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	**1,219**	(900)
Change in net unrealized gain (loss) on investment securities:		
Having no credit losses recognized in the consolidated statement of income	**54**	687
Having credit losses recognized in the consolidated statement of income	**23**	
Net change in unrealized foreign currency translation and other changes	**(25)**	(19)
Balance, end of period	**1,271**	(232)
Treasury stock (at cost)		
Balance, beginning of year	**(9,791)**	(6,426)
Treasury shares acquired share repurchase authorization	**(1,400)**	
Net shares acquired related to employee share-based compensation plans	**(40)**	(27)
Balance, end of period	**(11,231)**	(6,453)
Total common shareholders equity	**26,594**	26,410
Total shareholders equity	**$ 26,671**	$ 26,497
Common shares outstanding		
Balance, beginning of year	**520.3**	585.1
Treasury shares acquired share repurchase authorization	**(27.0)**	
Net shares issued under employee share-based compensation plans	**3.7**	0.2

Balance, end of period		**497.0**		585.3
Summary of changes in equity from nonowner sources				
Net income	**$**	**647**	$	662
Other changes in equity from nonowner sources, net of tax		**52**		668
Total changes in equity from nonowner sources	**$**	**699**	$	1,330

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,	2010	2009
Cash flows from operating activities		
Net income	**$ 647**	$ 662
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment (gains) losses	**(25)**	214
Depreciation and amortization	**216**	206
Deferred federal income tax expense	**76**	22
Amortization of deferred acquisition costs	**929**	944
Equity in (income) loss from other investments	**(45)**	194
Premiums receivable	**(97)**	(44)
Reinsurance recoverables	**86**	167
Deferred acquisition costs	**(939)**	(948)
Claims and claim adjustment expense reserves	**(224)**	(373)
Unearned premium reserves	**86**	64
Other	**(179)**	(295)
Net cash provided by operating activities	**531**	813
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**1,229**	1,210
Proceeds from sales of investments:		
Fixed maturities	**1,646**	630
Equity securities	**19**	16
Real estate	**9**	
Other investments	**114**	92
Purchases of investments:		
Fixed maturities	**(2,175)**	(2,265)
Equity securities	**(5)**	(12)
Real estate	**(3)**	(5)
Other investments	**(104)**	(112)
Net (purchases) sales of short-term securities	**202**	(451)
Securities transactions in course of settlement	**95**	398
Other	**(75)**	(84)
Net cash provided by (used in) investing activities	**952**	(583)
Cash flows from financing activities		
Payment of debt		(141)
Dividends paid to shareholders	**(168)**	(178)
Issuance of common stock employee share options	**123**	10
Treasury stock acquired share repurchase authorization	**(1,407)**	
Treasury stock acquired net employee share-based compensation	**(38)**	(27)
Excess tax benefits from share-based payment arrangements	**4**	1
Net cash used in financing activities	**(1,486)**	(335)
Effect of exchange rate changes on cash	**(1)**	

Net decrease in cash		**(4)**		(105)
Cash at beginning of period		**255**		350
Cash at end of period	**$**	**251**	$	245
Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**44**	$	34
Interest paid	**$**	**63**	$	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 2009 financial statements and notes to conform to the 2010 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 2009 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 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

Amendments to Accounting for Variable Interest Entities

In June 2009, the FASB issued updated guidance on the accounting for variable interest entities that eliminates the concept of a qualifying special-purpose entity and the quantitative-based risks and rewards calculation for determining which company, if any, has a controlling financial interest in a variable interest entity. The updated guidance requires an analysis of whether a company has: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb the losses that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. An entity is required to be re-evaluated as a variable interest entity when the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights to direct the activities that most significantly impact the entity s economic performance. Additional disclosures are required about a company s involvement in variable interest entities and an ongoing assessment of whether a company is the primary beneficiary.

The updated guidance is effective for all variable interest entities owned on or formed after January 1, 2010. The adoption of this guidance did not have any effect 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.

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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

Financial, Professional & International Insurance

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

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.

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
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**
2009								
Premiums	$	2,757	$	801	$	1,743	$	5,301
Net investment income		355		104		83		542
Fee income		73						73
Other revenues		6		6		21		33
Total operating revenues (1)	$	3,191	$	911	$	1,847	$	5,949
Operating income (1)	$	547	$	148	$	154	$	849

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended March 31, 2010	2009
Revenue reconciliation		
Earned premiums		
Business Insurance:		
Commercial multi-peril	**$ 710**	$ 718
Workers compensation	**600**	633
Commercial automobile	**471**	479
Property	**423**	446
General liability	**425**	482
Other	**(1)**	(1)
Total Business Insurance	**2,628**	2,757
Financial, Professional & International Insurance:		
Fidelity and surety	**247**	248
General liability	**226**	228
International	**318**	292
Other	**33**	33
Total Financial, Professional & International Insurance	**824**	801
Personal Insurance:		
Automobile	**904**	918
Homeowners and other	**874**	825
Total Personal Insurance	**1,778**	1,743
Total earned premiums	**5,230**	5,301
Net investment income	**753**	542
Fee income	**79**	73
Other revenues	**32**	33
Total operating revenues for reportable segments	**6,094**	5,949
Net realized investment gains (losses)	**25**	(214)
Total consolidated revenues	**$ 6,119**	$ 5,735

Income reconciliation, net of tax				
Total operating income for reportable segments	**$**	**712**	$	849
Interest Expense and Other (1)		**(81)**		(50)
Total operating income		**631**		799
Net realized investment gains (losses)		**16**		(137)
Total consolidated net income	**$**	**647**	$	662

(1) The primary component of Interest Expense and Other is after-tax interest expense of $64 million and $60 million for the three months ended March 31, 2010 and 2009, respectively. The 2010 total included $12 million of tax expense associated with the recently enacted federal health care legislation, whereas the 2009 total included a benefit of $14 million from the favorable resolution of various prior year tax matters.

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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, 2010		December 31, 2009
Asset reconciliation:				
Business Insurance	$	**80,724**	$	81,705
Financial, Professional & International Insurance		**14,217**		13,920
Personal Insurance		**13,176**		13,328
Total assets for reportable segments		**108,117**		108,953
Other assets (1)		**579**		607
Total consolidated assets	$	**108,696**	$	109,560

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

3. INVESTMENTS

Fixed Maturities

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

(at March 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	$	**2,019**	$	**85**	$		$	**2,104**
Obligations of states, municipalities and political subdivisions		**39,642**		**1,810**		**46**		**41,406**
Debt securities issued by foreign governments		**1,877**		**48**		**3**		**1,922**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		**4,915**		**216**		**121**		**5,010**
All other corporate bonds		**13,962**		**723**		**62**		**14,623**

Redeemable preferred stock	**48**	**4**	**1**	**51**
Total	**$ 62,463**	**$ 2,886**	**$ 233**	**$ 65,116**

(at December 31, 2009, 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	$ 2,490	$ 85	$ 1	$ 2,574
Obligations of states, municipalities and political subdivisions	39,459	1,915	41	41,333
Debt securities issued by foreign governments	1,912	48	3	1,957
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	5,182	190	165	5,207
All other corporate bonds	14,221	623	116	14,728
Redeemable preferred stock	47	2	1	48
Total	$ 63,311	$ 2,863	$ 327	$ 65,847

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Equity Securities

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

(at March 31, 2010, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ **174**	$ **54**	$ **1**	$ **227**
Non-redeemable preferred stock	**193**	**54**	**11**	**236**
Total	$ **367**	$ **108**	$ **12**	$ **463**

(at December 31, 2009, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 175	$ 46	$ 2	$ 219
Non-redeemable preferred stock	198	48	14	232
Total	$ 373	$ 94	$ 16	$ 451

Variable Interest Entities

Entities which do not have sufficient equity at risk to allow the entity to finance its activities without additional financial support or in which the equity investors, as a group, do not have the characteristic of a controlling financial interest are referred to as variable interest entities (VIE). A VIE is consolidated by the variable interest holder that is determined to have the controlling financial interest (primary beneficiary) as a result of having both the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the VIE s capital structure, contractual terms, nature of the VIE s operations and purpose and the Company s relative exposure to the related risks of the VIE on the date it becomes initially involved in the VIE. The Company reassesses its VIE determination with respect to an entity on an ongoing basis.

The Company is involved in the normal course of business with VIEs primarily as a passive investor in limited partner equity interests issued by third party VIEs. These include investments in private equity limited partnerships, hedge funds and real estate partnerships where the Company is not related to the general partner. These investments are generally accounted for under the equity method and reported in the Company s consolidated balance sheet as other investments unless the Company is deemed the primary beneficiary. These equity interests generally cannot be redeemed. Distributions from these investments are received by the Company as a result of liquidation of the underlying investments of the funds and/or as income distribution. The Company s maximum exposure to loss with respect to these investments is limited to the investment carrying amounts reported in the Company s consolidated balance sheet and any unfunded commitment. Neither the carrying amounts nor the unfunded commitments related to these VIEs are material.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at March 31, 2010 and December 31, 2009, the aggregate fair value and gross unrealized losses by length of time those securities have been continuously in an unrealized loss position.

	Less than 12 months		12 months or longer		Total	
(at March 31, 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	$ 234	$	$	$	$ 234	$
Obligations of states, municipalities and political subdivisions	2,884	34	191	12	3,075	46
Debt securities issued by foreign governments	224	3			224	3
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	233	15	853	106	1,086	121
All other corporate bonds	893	20	712	42	1,605	62
Redeemable preferred stock	6	1	3		9	1
Total fixed maturities	4,474	73	1,759	160	6,233	233
Equity securities						
Common stock	5		10	1	15	1
Non-redeemable preferred stock	14		94	11	108	11
Total equity securities	19		104	12	123	12
Total	$ 4,493	$ 73	$ 1,863	$ 172	$ 6,356	$ 245

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at December 31, 2009, in millions)	Less than 12 months		12 months or longer		Total	
	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	$ 1,018	$ 1	$	$	$ 1,018	$ 1
Obligations of states, municipalities and political subdivisions	1,901	24	250	17	2,151	41
Debt securities issued by foreign governments	282	3			282	3
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	313	4	988	161	1,301	165
All other corporate bonds	1,079	22	1,100	94	2,179	116
Redeemable preferred stock	6	1	3		9	1
Total fixed maturities	4,599	55	2,341	272	6,940	327
Equity securities						
Common stock	59	1	17	1	76	2
Non-redeemable preferred stock	9		83	14	92	14
Total equity securities	68	1	100	15	168	16
Total	$ 4,667	$ 56	$ 2,441	$ 287	$ 7,108	$ 343

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, 2010, 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	**$ 3**	**$**	**$ 7**	**$ 42**	**$ 52**
Other				**26**	**26**
Total fixed maturities	**3**		**7**	**68**	**78**
Equity securities					
Total	**$ 3**	**$**	**$ 7**	**$ 68**	**$ 78**

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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 (losses) in the consolidated statement of income were as follows:

(for the three months ended March 31, in millions)	2010	2009
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	**1**	51
All other corporate bonds	**5**	56
Redeemable preferred stock		
Total fixed maturities	**6**	107
Equity securities		
Common stock	**1**	15
Non-redeemable preferred stock		59
Total equity securities	**1**	74
Other investments	**3**	3
Total	**$ 10**	$ 184

In the second quarter of 2009, the Company adopted updated accounting guidance that changed the reporting of other-than-temporary impairments (OTTI). As a result, the credit component of OTTI on fixed maturities was reported separately effective April 1, 2009, the date of adoption.

The following table presents 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 other-than-temporary impairment was recognized in accumulated other changes in equity from nonowner sources for the period January 1, 2010 through March 31, 2010:

January 1, 2010 through March 31, 2010 (in millions)	January 1, 2010 Cumulative OTTI Credit Losses Recognized for Securities Held	Additions for OTTI Securities Where No Credit Losses Were Recognized Prior to January 1, 2010	Additions for OTTI Securities Where Credit Losses Have Been Recognized Prior to January 1, 2010	Reductions Due to Sales/Defaults of Credit-Impaired Securities	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	March 31, 2010 Cumulative OTTI Credit Losses Recognized for Securities Still Held
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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS

The Company s estimates of fair value for financial assets and financial liabilities are based on the framework established in 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.

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 TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

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

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

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

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

Other Investments

Common Stock with Transfer Restrictions and Other

The Company holds one public common stock with transfer restrictions with a fair value of $212 million. At March 31, 2010, the fair value of this common stock was determined by adjusting the observed market price of the security for a liquidity discount which takes into consideration the restriction on the common stock that existed at March 31, 2010 and is based on market observable inputs. As a result of adjusting the market price to consider the transfer restriction, the Company discloses this security in Level 2. The Company holds investments in non-public common and preferred equity securities, with a fair value estimate of $54 million at March 31, 2010, 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, 2010 in the amount disclosed in Level 3. The Company holds investments in various publicly-traded securities which are reported in other investments. The $44 million fair value of these investments at March 31, 2010 is disclosed in Level 1. These investments include securities in the Company s trading portfolio ($24 million), mutual funds ($16 million) and other small holdings ($4 million).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Derivatives

The Company holds non-public warrants in a public company and has convertible bonds containing embedded conversion options that are valued separately from the host bond contract. The Company estimates fair value for the warrants using an option pricing model with observable market inputs. Because the warrants are not market traded and information concerning market participants is not available, the Company includes the fair value estimate of $84 million at March 31, 2010 in the amount disclosed in Level 3 - other investments.

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, 2010 and December 31, 2009.

(at March 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	$ 2,104	$ 2,087	$ 17	$
Obligations of states, municipalities and political subdivisions	41,406		41,302	104
Debt securities issued by foreign governments	1,922		1,922	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	5,010		4,986	24
All other corporate bonds	14,623		14,501	122
Redeemable preferred stock	51	50	1	
Total fixed maturities	65,116	2,137	62,729	250
Equity securities				
Common stock	227	227		

Non-redeemable preferred stock	**236**	**139**	**97**	
Total equity securities	**463**	**366**	**97**	
Other investments (1)	**394**	**44**	**212**	**138**
Total	**$ 65,973**	**$ 2,547**	**$ 63,038**	**$ 388**

(1) The amount in Level 3 includes $84 million of non-public stock purchase warrants of a publicly-held company.

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

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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, 2009, 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	$ 2,574	$ 2,517	$ 57	$
Obligations of states, municipalities and political subdivisions	41,333		41,232	101
Debt securities issued by foreign governments	1,957		1,957	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	5,207		5,184	23
All other corporate bonds	14,728		14,612	116
Redeemable preferred stock	48	36	12	
Total fixed maturities	65,847	2,553	63,054	240
Equity securities				
Common stock	219	219		
Non-redeemable preferred stock	232	138	94	
Total equity securities	451	357	94	
Other investments (1)	413	46	213	154
Total	$ 66,711	$ 2,956	$ 63,361	$ 394

(1) The amount in Level 3 includes $94 million of non-public stock purchase warrants of a publicly-held company.

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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, 2010 and the twelve months ended December 31, 2009.

(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)	**1**	**(9)**	**(8)**
Included in increases (decreases) in accumulated other changes in equity from nonowner sources	**2**	**(2)**	
Purchases, sales and settlements/maturities:			
Purchases	**15**		**15**
Sales	**(6)**	**(5)**	**(11)**
Settlements/maturities	**(5)**		**(5)**
Gross transfers into Level 3	**4**		**4**
Gross transfers out of Level 3	**(1)**		**(1)**
Balance at March 31, 2010	**$ 250**	**$ 138**	**$ 388**
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	**$**	**$ (10)**	**$ (10)**

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

(in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2008	$ 154	$ 311	$ 465
Total realized and unrealized investment gains (losses):			
Included in realized investment gains (losses) (1)	(5)	(4)	(9)
Included in increases (decreases) in accumulated other changes in equity from nonowner sources	11	73	84
Purchases, sales and settlements/maturities:			
Purchases	128	4	132
Sales	(12)		(12)

Settlements/maturities		(18)				(18)
Gross transfers into Level 3		9				9
Gross transfers out of Level 3		(27)		(230)		(257)
Balance at December 31, 2009	$	240	$	154	$	394
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	$		$	7	$	7

(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, 2010 or twelve months ended December 31, 2009.

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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 $591 million and $623 million of financial instruments classified as other assets approximated their fair values at March 31, 2010 and December 31, 2009, respectively. The carrying values of $3.82 billion and $4.14 billion of financial instruments classified as other liabilities at March 31, 2010 and December 31, 2009, 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, 2010 was $6.53 billion and $6.93 billion, respectively. The respective totals at December 31, 2009 were $6.53 billion and $6.82 billion. The Company utilized a pricing service to estimate fair value measurements for approximately 96% of its debt, other than commercial paper, at each of March 31, 2010 and December 31, 2009. 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, 2010 and December 31, 2009 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, 2010 and December 31, 2009:

(in millions)		March 31, 2010		December 31, 2009
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, 2010 and December 31, 2009:

(at March 31, 2010, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization			
Customer-related	$ 935	$ 739	$ 196
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	191	39	152
Total intangible assets subject to amortization	1,126	778	348
Intangible assets not subject to amortization	216		216
Total other intangible assets	$ 1,342	$ 778	$ 564

(at December 31, 2009, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization			
Customer-related	$ 935	$ 722	$ 213
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	191	32	159
Total intangible assets subject to amortization	1,126	754	372
Intangible assets not subject to amortization	216		216
Total other intangible assets	$ 1,342	$ 754	$ 588

(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)	2010	2009
Customer-related	**$ 17**	$ 21
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**7**	7
Total amortization expense	**$ 24**	$ 28

Intangible asset amortization expense is estimated to be $62 million for the remainder of 2010, $69 million in 2011, $52 million in 2012, $45 million in 2013 and $43 million in 2014.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. SHARE REPURCHASE AUTHORIZATION

Since May 2006, the Company s board of directors has approved four common share repurchase authorizations, for a cumulative authorization of up to $16 billion of shares of the Company s common stock.Under these authorizations, the most recent of which totaled $6 billion and was approved by the board of directors in October 2009, repurchases may be made from time to time in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company s earnings, corporate and regulatory requirements, share price, catastrophe losses, strategic initiatives and other market conditions. During the three months ended March 31, 2010, the Company repurchased 27.0 million shares under its share repurchase authorization, for a total cost of approximately $1.40 billion. The average cost per share repurchased was $51.88. At March 31, 2010, the Company had $5.11 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)		**2010**		**2009**
Net income	**$**	**647**	$	662
Change in net unrealized gain (loss) on investments:				
Having no credit losses recognized in the consolidated statement of income		**54**		687
Having credit losses recognized in the consolidated statement of income		**23**		
Other changes		**(25)**		(19)
Total changes in equity from nonowner sources	**$**	**699**	$	1,330

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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, 2010	2009
Basic		
Net income, as reported	**$ 647**	$ 662
Preferred stock dividends	**(1)**	(1)
Participating share-based awards allocated income	**(5)**	(5)
Net income available to common shareholders basic	**$ 641**	$ 656
Diluted		
Net income available to common shareholders	**$ 641**	$ 656
Effect of dilutive securities:		
Convertible preferred stock	**1**	1
Zero coupon convertible notes		1
Net income available to common shareholders diluted	**$ 642**	$ 658
Common Shares		
Basic		
Weighted average shares outstanding	**508.4**	584.6
Diluted		
Weighted average shares outstanding	**508.4**	584.6
Weighted average effects of dilutive securities:		
Stock options and performance shares	**4.8**	2.0
Convertible preferred stock	**1.9**	2.2
Zero coupon convertible notes		1.6
Total	**515.1**	590.4
Net Income per Common Share		
Basic	**$ 1.26**	$ 1.12
Diluted	**$ 1.25**	$ 1.11

9. SHARE-BASED INCENTIVE COMPENSATION

The following presents information for fully vested stock option awards at March 31, 2010:

Stock Options	Number		Weighted Average Exercise Price	Weighted Average Contractual Life Remaining		Aggregate Intrinsic Value ($ in millions)
Vested at end of period (1)	**24,639,942**	**$**	**46.20**	**3.6 years**	**$**	**201**
Exercisable at end of period	**21,136,868**	**$**	**46.22**	**2.8 years**	**$**	**173**

(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 recognized in earnings for all share-based incentive compensation awards was $42 million and $37 million for the three months ended March 31, 2010 and 2009, respectively. The related tax benefit recognized in earnings was $15 million and $13 million for the three months ended March 31, 2010 and 2009, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at March 31, 2010 was $186 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, 2009 was $111 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)	**2010**	**2009**	**2010**	**2009**
Net Periodic Benefit Cost:				
Service cost	**$ 24**	$ 20	**$**	$
Interest cost on benefit obligation	**32**	31	**4**	4
Expected return on plan assets	**(46)**	(43)		
Amortization of unrecognized:				
Prior service benefit	**(1)**	(1)		
Net actuarial loss	**15**	5		
Net benefit expense	**$ 24**	$ 12	**$ 4**	$ 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 their properties are subject.

Asbestos- and Environmental-Related Proceedings

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

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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.

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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.

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.

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

Other Proceedings

Industry-Wide Investigations As previously disclosed, as part of industry-wide investigations that commenced in October 2004, the Company and its affiliates received subpoenas and written requests for information from a number of government agencies and authorities, including, among others, state attorneys general, state insurance departments, the U.S. Attorney for the Southern District of New York and the U.S. Securities and Exchange Commission (SEC). The areas of pending inquiry addressed to the Company included its relationship with brokers and agents and the Company s involvement with non-traditional insurance and reinsurance products. The Company and its affiliates may receive additional subpoenas and requests for information with respect to these matters.

The Company cooperated with these subpoenas and requests for information. In addition, outside counsel, with the oversight of the Company s board of directors, conducted an internal review of these matters. This review was commenced after the announcement of litigation brought in October 2004 by the New York Attorney General s office against a major broker. In particular, upon completion of its review with respect to non-traditional insurance and reinsurance products, the Company concluded that no adjustment to previously issued financial statements was required. Any authority with open inquiries or investigations could ask that additional work be performed or reach conclusions different from the Company s.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Broker Anti-Trust Litigation In 2005, four putative class action lawsuits were brought against a number of insurance brokers and insurers, including the Company and/or certain of its affiliates, by plaintiffs who allegedly purchased insurance products through one or more of the defendant brokers. The plaintiffs alleged that various insurance brokers conspired with each other and with various insurers, including the Company and/or certain of its affiliates, to artificially inflate premiums, allocate brokerage customers and rig bids for insurance products offered to those customers. To the extent they were not originally filed there, the federal class actions were transferred to the U.S. District Court for the District of New Jersey and were consolidated for pre-trial proceedings with other class actions under the caption *In re Insurance Brokerage Antitrust Litigation*. On August 1, 2005, various plaintiffs, including the four named plaintiffs in the above-referenced class actions, filed an amended consolidated class action complaint naming various brokers and insurers, including the Company and certain of its affiliates, on behalf of a putative nationwide class of policyholders. The complaint included causes of action under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state common law and the laws of the various states prohibiting antitrust violations. The complaint sought monetary damages, including punitive damages and trebled damages, permanent injunctive relief, restitution, including disgorgement of profits, interest and costs, including attorneys fees. All defendants moved to dismiss the complaint for failure to state a claim. After giving plaintiffs multiple opportunities to replead, the court dismissed the Sherman Act claims on August 31, 2007 and the RICO claims on September 28, 2007, both with prejudice, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs appealed the district court s decisions to the U.S. Court of Appeals for the Third Circuit. Oral argument before the Third Circuit took place on April 21, 2009. The parties continue to await a ruling from the Third Circuit. Additional individual actions have been brought in state and federal courts against the Company involving allegations similar to those in *In re Insurance Brokerage Antitrust Litigation,* and further actions may be brought. The Company believes that all of these lawsuits have no merit and intends to defend vigorously.

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.

The Company previously reported that it sought guidance from the Division of Corporation Finance of the SEC with respect to the appropriate purchase accounting treatment for certain second quarter 2004 adjustments totaling $1.63 billion. See Management s Discussion and Analysis of Financial Condition and Results of Operations Other Matters. After discussion with the staff of the Division of Corporate Finance and the Company s independent auditors, the Company continues to believe that its accounting treatment for these adjustments is appropriate. On May 3, 2006, the Company received a letter from the Division of Enforcement of the SEC advising the Company that it is conducting an inquiry relating to the second quarter 2004 adjustments and the April 1, 2004 merger of SPC and TPC. The Company cooperated with the requests for information.

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 were $1.30 billion and $1.32 billion at March 31, 2010 and December 31, 2009, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Guarantees

The Company has contingent obligations for guarantees related to letters of credit, issuance of debt securities, certain investments and various indemnifications, including those related to the sale of business entities. The Company also provides standard indemnifications to service providers in the normal course of business. The indemnification clauses are often standard contractual terms. Certain of these guarantees and indemnifications have no stated or notional amounts or limitation to the maximum potential future payments, and, accordingly, the Company is unable to develop an estimate of the maximum potential payments for such arrangements.

In the ordinary course of selling business entities to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the business entities being sold, covenants and obligations of the Company and/or its subsidiaries following the closing, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development, imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, or certain named litigation. Such indemnification provisions generally survive for periods ranging from 12 months following the applicable closing date to the expiration of the relevant statutes of limitations, or in some cases agreed upon term limitations. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. The maximum amount of the Company s contingent obligation for indemnifications that are quantifiable was $1.39 billion at March 31, 2010, of which $12 million was recognized on the balance sheet at that date. These amounts resulted from indemnifications that were provided in connection with the sales of business entities.

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 $1.19 billion at March 31, 2010.

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

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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 losses	$ 3	$ (4)	$	$	$ (1)
Portion of losses 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 STATEMENT OF INCOME (Unaudited)

For the three months ended March 31, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,587	$ 1,714	$	$	$ 5,301
Net investment income	331	205	6		542
Fee income	73				73
Net realized investment losses	(106)	(75)	(33)		(214)
Other revenues	30	3			33
Total revenues	3,915	1,847	(27)		5,735
Claims and expenses					
Claims and claim adjustment expenses	2,136	1,054			3,190
Amortization of deferred acquisition costs	633	311			944
General and administrative expenses	491	285	6		782
Interest expense	18		74		92
Total claims and expenses	3,278	1,650	80		5,008
Income (loss) before income taxes	637	197	(107)		727
Income tax expense (benefit)	131	25	(91)		65
Equity in net income of subsidiaries			678	(678)	
Net income	$ 506	$ 172	$ 662	$ (678)	$ 662

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total losses	$ (110)	$ (74)	$	$	$ (184)
Portion of losses recognized in accumulated other changes in equity from nonowner sources					

Other-than-temporary impairment losses	(110)	(74)			(184)
Other net realized investment gains (losses)	4	(1)	(33)		(30)
Net realized investment (losses)	$ (106)	$ (75)	$ (33)	$	$ (214)

(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, 2010

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (including $83 subject to securities lending) (amortized cost $62,463)	$ 43,960	$ 21,145	$ 11	$	$ 65,116
Equity securities, available for sale, at fair value (cost $367)	195	208	60		463
Real estate	1	850			851
Short-term securities	1,063	557	3,028		4,648
Other investments	1,833	1,044	86		2,963
Total investments	47,052	23,804	3,185		74,041
Cash	112	130	9		251
Investment income accrued	529	248			777
Premiums receivable	3,697	1,867			5,564
Reinsurance recoverables	8,291	4,436			12,727
Ceded unearned premiums	742	255			997
Deferred acquisition costs	1,513	254			1,767
Deferred tax asset	371	149	40		560
Contractholder receivables	4,278	1,562			5,840
Goodwill	2,411	954			3,365
Other intangible assets	349	215			564
Investment in subsidiaries			29,010	(29,010)	
Other assets	1,963	269	57	(46)	2,243
Total assets	$ 71,308	$ 34,143	$ 32,301	$ (29,056)	$ 108,696
Liabilities					
Claims and claim adjustment expense reserves	$ 34,502	$ 18,339	$	$	$ 52,841
Unearned premium reserves	7,440	3,495			10,935
Contractholder payables	4,278	1,562			5,840
Payables for reinsurance premiums	378	260			638
Debt	1,192	9	5,370	(46)	6,525

Other liabilities	3,962	1,019	265		5,246
Total liabilities	51,752	24,684	5,635	(46)	82,025
Shareholders equity					
Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)			77		77
Common stock (1,748.6 shares authorized; 497.0 shares issued and outstanding)		391	19,762	(391)	19,762
Additional paid-in capital	11,207	6,959		(18,166)	
Retained earnings	7,044	1,563	16,787	(8,602)	16,792
Accumulated other changes in equity from nonowner sources	1,305	546	1,271	(1,851)	1,271
Treasury stock, at cost (227.4 shares)			(11,231)		(11,231)
Total shareholders equity	19,556	9,459	26,666	(29,010)	26,671
Total liabilities and shareholders equity	$ 71,308	$ 34,143	$ 32,301	$ (29,056)	$ 108,696

(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 December 31, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (including $90 subject to securities lending) (amortized cost $63,311)	$ 44,532	$ 21,022	$ 293	$	$ 65,847
Equity securities, available for sale, at fair value (cost $373)	196	198	57		451
Real estate	2	863			865
Short-term securities	2,241	750	1,861		4,852
Other investments	1,826	1,029	95		2,950
Total investments	48,797	23,862	2,306		74,965
Cash	132	122	1		255
Investment income accrued	547	275	3		825
Premiums receivable	3,648	1,823			5,471
Reinsurance recoverables	8,260	4,556			12,816
Ceded unearned premiums	788	128			916
Deferred acquisition costs	1,507	251			1,758
Deferred tax asset	460	173	39		672
Contractholder receivables	4,268	1,529			5,797
Goodwill	2,411	954			3,365
Other intangible assets	356	232			588
Investment in subsidiaries			30,608	(30,608)	
Other assets	1,871	248	59	(46)	2,132
Total assets	$ 73,045	$ 34,153	$ 33,016	$ (30,654)	$ 109,560
Liabilities					
Claims and claim adjustment expense reserves	$ 34,622	$ 18,505	$	$	$ 53,127
Unearned premium reserves	7,504	3,357			10,861
Contractholder payables	4,268	1,529			5,797
Payables for reinsurance premiums	309	237			546
Debt	1,192	9	5,372	(46)	6,527

Other liabilities	3,832	1,221	234		5,287
Total liabilities	51,727	24,858	5,606	(46)	82,145
Shareholders equity					
Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)			79		79
Common stock (1,748.6 shares authorized; 520.3 shares issued and outstanding)		391	19,593	(391)	19,593
Additional paid-in capital	11,206	6,960		(18,166)	
Retained earnings	8,852	1,399	16,310	(10,246)	16,315
Accumulated other changes in equity from nonowner sources	1,260	545	1,219	(1,805)	1,219
Treasury stock, at cost (199.6 shares)			(9,791)		(9,791)
Total shareholders equity	21,318	9,295	27,410	(30,608)	27,415
Total liabilities and shareholders equity	$ 73,045	$ 34,153	$ 33,016	$ (30,654)	$ 109,560

(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 CASH FLOWS (Unaudited)

For the three months ended March 31, 2010

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 566	$ 164	$ 647	$ (730)	$ 647
Net adjustments to reconcile net income to net cash provided by operating activities	(103)	(372)	2,004	(1,645)	(116)
Net cash provided by (used in) operating activities	463	(208)	2,651	(2,375)	531
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	740	479	10		1,229
Proceeds from sales of investments:					
Fixed maturities	1,199	447			1,646
Equity securities	15	4			19
Real estate		9			9
Other investments	86	28			114
Purchases of investments:					
Fixed maturities	(1,265)	(910)			(2,175)
Equity securities	(4)	(1)			(5)
Real estate		(3)			(3)
Other investments	(63)	(41)			(104)
Net (purchases) sales of short-term securities	1,178	191	(1,167)		202
Securities transactions in course of settlement	79	16			95
Other	(73)	(2)			(75)
Net cash provided by (used in) investing activities	1,892	217	(1,157)		952
Cash flows from financing activities					
Dividends paid to shareholders			(168)		(168)
Issuance of common stock - employee share options			123		123
Treasury shares acquired share repurchase authorization			(1,407)		(1,407)

Treasury shares acquired net employee share-based compensation			(38)		(38)
Excess tax benefits from share-based payment arrangements			4		4
Dividends paid to parent company	(2,375)			2,375	
Net cash used in financing activities	(2,375)		(1,486)	2,375	(1,486)
Effect of exchange rate changes on cash		(1)			(1)
Net increase (decrease) in cash	(20)	8	8		(4)
Cash at beginning of period	132	122	1		255
Cash at end of period	$ 112	$ 130	$ 9	$	$ 251
Supplemental disclosure of cash flow information					
Income taxes paid	$ 13	$ 8	$ 23	$	$ 44
Interest paid	$ 29	$	$ 34	$	$ 63

(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 CASH FLOWS (Unaudited)

For the three months ended March 31, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 506	$ 172	$ 662	$ (678)	$ 662
Net adjustments to reconcile net income to net cash provided by operating activities	(125)	236	52	(12)	151
Net cash provided by operating activities	381	408	714	(690)	813
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	634	567	9		1,210
Proceeds from sales of investments:					
Fixed maturities	486	140	4		630
Equity securities	2	14			16
Other investments	81	11			92
Purchases of investments:					
Fixed maturities	(941)	(1,324)			(2,265)
Equity securities		(12)			(12)
Real estate		(5)			(5)
Other investments	(68)	(44)			(112)
Net sales (purchases) of short-term securities	(206)	146	(391)		(451)
Securities transactions in course of settlement	362	36			398
Other	(84)				(84)
Net cash provided by (used in) investing activities	266	(471)	(378)		(583)
Cash flows from financing activities					
Payment of debt			(141)		(141)
Dividends paid to shareholders			(178)		(178)
Issuance of common stock - employee share options			10		10
Treasury shares acquired net employee share-based compensation			(27)		(27)
			1		1

Excess tax benefits from share-based payment arrangements					
Dividends paid to parent company	(690)			690	
Net cash used in financing activities	(690)		(335)	690	(335)
Effect of exchange rate changes on cash					
Net increase (decrease) in cash	(43)	(63)	1		(105)
Cash at beginning of period	183	167			350
Cash at end of period	$ 140	$ 104	$ 1	$	$ 245
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 95	$ (17)	$ (44)	$	$ 34
Interest paid	$ 29	$	$ 34	$	$ 63

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

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

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

FINANCIAL HIGHLIGHTS

2010 First Quarter Consolidated Results of Operations

- Net income of $647 million, or $1.26 per share basic and $1.25 per share diluted
- Net earned premiums of $5.23 billion
- Catastrophe losses of $471 million pretax ($312 million after-tax)
- Pretax net favorable prior year reserve development of $294 million ($192 million after-tax)
- GAAP combined ratio of 96.4%
- Pretax net investment income of $753 million ($610 million after-tax)
- Pretax net realized investment gains of $25 million ($16 million after-tax)

2010 First Quarter Consolidated Financial Condition

- Total investments of $74.04 billion; fixed maturities and short-term securities comprise 94% of total investments
- Total assets of $108.70 billion
- Total debt of $6.53 billion, resulting in a debt-to-total capital ratio of 19.7% (20.9% excluding net unrealized investment gains (losses), net of tax)
- Repurchased 27.0 million common shares for total cost of $1.40 billion under share repurchase authorization
- Shareholders equity of $26.67 billion; book value per common share of $53.50, up 19% from March 31, 2009

- Holding company liquidity of $3.03 billion

CONSOLIDATED OVERVIEW

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

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Consolidated Results of Operations

(for the three months ended March 31, in millions except ratio and per share amounts)		2010		2009
Revenues				
Premiums	**$**	**5,230**	$	5,301
Net investment income		**753**		542
Fee income		**79**		73
Net realized investment gains (losses)		**25**		(214)
Other revenues		**32**		33
Total revenues		**6,119**		5,735
Claims and expenses				
Claims and claim adjustment expenses		**3,388**		3,190
Amortization of deferred acquisition costs		**929**		944
General and administrative expenses		**847**		782
Interest expense		**98**		92
Total claims and expenses		**5,262**		5,008
Income before income taxes		**857**		727
Income tax expense		**210**		65
Net income	**$**	**647**	$	662
Net income per share				
Basic	**$**	**1.26**	$	1.12
Diluted	**$**	**1.25**	$	1.11
GAAP combined ratio				
Loss and loss adjustment expense ratio		**64.0%**		59.7%
Underwriting expense ratio		**32.4**		30.9
GAAP combined ratio		**96.4%**		90.6%
Incremental impact of direct to consumer initiative on GAAP combined ratio		**0.6%**		0.5%

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

Overview

Diluted net income per share of $1.25 in the first quarter of 2010 increased by 13% over the same period of 2009, despite a 2% decline in reported net income, reflecting the impact of common share repurchases over the previous twelve months that led to a 75 million, or 13%, decline in the number of weighted average diluted shares outstanding in the first quarter of 2010 compared with the same 2009 period. Net income of $647 million in the first quarter of 2010 decreased $15 million from net income of $662 million in the same period of 2009, primarily reflecting the impact of an increase in catastrophe losses, partially offset by net realized investment gains in 2010 (compared with significant net realized investment losses in 2009), a strong increase in net investment income, a decline in non-catastrophe weather-related losses and an increase in net favorable prior year reserve development. Catastrophe losses in the first quarters of 2010 and 2009 totaled $471 million and $83 million, respectively. Net income in the first quarter of 2009 also reflected a reduction in income tax expense of $69 million resulting from the favorable resolution of various prior year tax matters and a $61 million reduction in the estimate of property windpool assessments related to Hurricane Ike that had been recorded in general and administrative expenses in 2008.

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Revenues

Earned Premiums

Earned premiums in the first quarter of 2010 totaled $5.23 billion, a decrease of $71 million, or 1%, from the same period of 2009. In the Business Insurance segment, earned premiums declined 5% from the first quarter of 2009 despite strong business retention levels, attributable to reduced insured exposures due to lower levels of economic activity. In the Financial, Professional & International Insurance segment, the 3% increase in earned premiums over the first quarter of 2009 was primarily attributable to the favorable impact of foreign currency exchange rates. In the Personal Insurance segment, earned premium growth of 2% over the first quarter of 2009 reflected continued strong business retention rates, continued renewal price increases and growth in new business volumes during the preceding twelve months.

Net Investment Income

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

(for the three months ended March 31, in millions)	2010	2009
Average investments (a)	**$ 72,659**	$ 72,720
Pretax net investment income	**753**	542
After-tax net investment income	**610**	474
Average pretax yield (b)	**4.1%**	3.0%
Average after-tax yield (b)	**3.4%**	2.6%

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

(b) Excludes net realized investment gains and losses and net unrealized investment gains and losses.

Net investment income of $753 million in the first quarter of 2010 increased $211 million, or 39%, over the same period of 2009, primarily resulting from improved returns from non-fixed maturity investments, which generated net investment income of $66 million in the first quarter of 2010, compared with negative net investment income of $175 million in the same period of 2009. This increase was partially offset by a decline in investment income from fixed maturity investments, driven by lower long-term reinvestment interest rates available for maturing securities and lower short-term interest rates. The average pretax yield on the total investment portfolio was 4.1% and 3.0% in the first quarters of 2010 and 2009, respectively. The improved performance from non-fixed income investments in 2010 reflected improving capital market conditions. The amortized cost of the fixed maturity and short-term security portion of the investment portfolio at March 31, 2010 totaled $67.11 billion, $333 million lower than at the same date in 2009, primarily reflecting the impact of $4.78 billion of common share repurchases, $681 million of dividends paid to shareholders and contributions of $260 million to the Company s pension plan during the preceding twelve months, which were largely offset by strong operating cash flows during that time period (a portion of which was invested in fixed maturity securities) and the issuance of $500 million of senior notes in the second quarter of 2009.

Except as described below for certain legal entities, the Company allocates its invested assets and the related net investment income to its reportable business segments. Pretax net investment income is allocated based upon an investable funds concept, which takes into account liabilities (net of non-invested assets) and appropriate capital considerations for each segment. For investable funds, a benchmark investment yield is developed that reflects the estimated duration of the loss reserves future cash flows, the interest rate environment at the time the losses were incurred and A+ rated corporate debt instrument yields. For capital, a benchmark investment yield is developed that reflects the average yield on the total investment portfolio. The benchmark investment yields are applied to each segment s investable funds and capital, respectively, to produce a total notional investment income by segment. The Company s actual net investment income is allocated to each segment in proportion to the respective segment s notional investment income to total notional investment income. There are certain legal entities within the Company that are dedicated to specific reportable business segments. The invested assets and related net investment income from these legal entities are reported in the applicable business segment and are not allocated among the other business segments.

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Fee Income

The National Accounts market in the Business Insurance segment is the primary source of the Company s fee-based business. The $6 million increase in fee income in the first quarter of 2010 compared with the same period of 2009 is described in the Business Insurance segment discussion that follows.

Net Realized Investment Gains (Losses)

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

(for the three months ended March 31, in millions)	2010	2009
Net Realized Investment Gains (Losses) (1)		
Other-than-temporary impairment losses:		
Total losses	**$ (1)**	$ (184)
Portion of losses recognized in accumulated other changes in equity from nonowner sources	**(9)**	
Other-than-temporary impairment losses	**(10)**	(184)
Other net realized investment gains (losses)	**35**	(30)
Net realized investment gains (losses)	**$ 25**	$ (214)

(1) In the second quarter of 2009, the Company adopted updated accounting guidance that changed the reporting of other-than-temporary impairments (OTTI). As a result, the credit component of OTTI on fixed maturities was reported separately effective April 1, 2009, the date of adoption.

Other-Than-Temporary Impairment Losses on Investments In the first quarter of 2010, impairments included in net income totaled $10 million and included $6 million related to the fixed maturity portfolio, $3 million related to other investments and $1 million related to equity securities. In the first quarter of 2009, impairments included in net income totaled $184 million. Impairments in the fixed maturity portfolio in the first quarter of 2009 totaled $107 million, which included $51 million of impairments related to structured mortgage securities, $47 million related to various issuers deteriorated financial position and $9 million related to externally managed securities with respect to which the Company does not have the ability to assert an intention to hold until recovery in market value. Impairments in the first quarter of 2009 also included $74 million related to equity investments and $3 million related to other investments. The majority of equity impairments in the first quarter of 2009 were related to issuers in the financial industry.

Other Net Realized Investment Gains (Losses) Other net realized investment gains in the first quarter of 2010 totaled $35 million, which included $28 million of net realized investment gains related to fixed maturity investments, $18 million of net realized investment gains related to equity securities and other investments, and $8 million of net realized investment gains related to foreign currency exchange. These net realized investment gains were partially offset by $10 million of net realized investment losses related to the Company s holdings of stock purchase warrants of Platinum Underwriters Holdings, Ltd. a publicly held company, and $7 million of net realized investment losses related to U.S. Treasury futures contracts, which are used to shorten the duration of the Company s fixed maturity portfolio. In the first quarter of 2009, the Company incurred $33 million of other net realized investment losses related to its holdings of stock purchase warrants of Platinum Underwriters Holdings, Ltd.

Written Premiums

Consolidated gross and net written premiums were as follows:

	Gross Written Premiums	
(for the three months ended March 31, in millions)	**2010**	**2009**
Business Insurance	**$ 3,118**	$ 3,294
Financial, Professional & International Insurance	**898**	842
Personal Insurance	**1,787**	1,727
Total	**$ 5,803**	$ 5,863

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(for the three months ended March 31, in millions)	Net Written Premiums 2010	2009
Business Insurance	**$ 2,834**	$ 2,963
Financial, Professional & International Insurance	**681**	563
Personal Insurance	**1,736**	1,677
Total	**$ 5,251**	$ 5,203

Gross written premiums in the first quarter of 2010 decreased 1% from the same period of 2009, whereas net written premiums increased 1% over the first quarter of 2009. The difference in changes between gross and net written premiums was concentrated in the Financial, Professional & International Insurance segment, largely due to changes in the structure of the Company s reinsurance that directionally aligned retentions in the Company s International business with U.S. practices and, to a lesser extent, lower reinsurance costs. Retention rates remained high and the impact of renewal rate changes on premiums remained positive across all three business segments. New business volume increased slightly over the first quarter of 2009, as modest growth in the Financial, Professional & International Insurance and Personal Insurance segments was largely offset by a decline in new business volume in the Business Insurance segment.

In Business Insurance, net written premiums in the first quarter of 2010 declined 4% from the same period of 2009, driven by lower levels of economic activity in recent quarters that impacted exposure changes at renewal, audit premium adjustments, policy endorsements and mid-term cancellations. In Financial, Professional & International Insurance, net written premiums in the first quarter of 2010 increased 21% over the same period of 2009, reflecting the changes in the structure and cost of reinsurance referred to above, new business at Lloyd s and higher business volume in the Construction Services business unit. In the Personal Insurance segment, net written premiums in the first quarter of 2010 increased 4% over the same period of 2009, reflecting continued strong retention rates and renewal premium increases, particularly in the Homeowners and Other line of business.

Claims and Expenses

Claims and claim adjustment expenses totaled $3.39 billion in the first quarter of 2010, $198 million, or 6%, higher than the first quarter 2009 total of $3.19 billion. The 2010 total included $471 million of catastrophe losses and $294 million of net favorable prior year reserve development, whereas the 2009 first quarter total included $83 million of catastrophe losses and $258 million of net favorable prior year reserve development. The 2010 total also reflected a decline in non-catastrophe weather-related losses, primarily in the Personal Insurance segment. Catastrophe losses in the first quarter of 2010 primarily resulted from several severe winter, wind and hail storms in the eastern United States, as well as an earthquake in Chile. In the first quarter of 2009, catastrophes primarily resulted from several winter storms, tornadoes and hail storms. The Business Insurance segment accounted for $242 million of net favorable prior year reserve development in the first quarter of 2010, driven by better than expected loss development in the general liability, property and commercial multi-peril product lines for recent accident years. In the Financial, Professional & International Insurance segment, the Bond & Financial Products group and the International group both recorded net favorable prior year reserve development in the first quarter of 2010. The Personal Insurance segment also experienced a small amount of net favorable prior year reserve development in the first quarter of 2010, primarily in various property coverages.

Net favorable prior year reserve development in the first quarter of 2009 was also concentrated in the Business Insurance segment, resulting from better than expected loss development for recent accident years in the general liability, commercial multi-peril, property and commercial automobile product lines, and in the Personal Insurance segment, primarily due to favorable loss experience related to Hurricanes Katrina and Ike. Net favorable prior year reserve development in the Financial, Professional & International Insurance segment in the first quarter of 2009 was concentrated in the International group.

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

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The amortization of deferred acquisition costs totaled $929 million in the first quarter of 2010, $15 million, or 2%, lower than the comparable 2009 total of $944 million, consistent with the decline in earned premiums. General and administrative expenses totaled $847 million in the first quarter of 2010, an increase of $65 million, or 8%, over the comparable 2009 total of $782 million. The 2009 total reflected a $61 million reduction in the estimate of assessments related to Hurricane Ike that had been recorded in general and administrative expenses.

Interest Expense

Interest expense of $98 million in the first quarter of 2010 was $6 million higher than in the same period of 2009, primarily reflecting higher average levels of debt outstanding in the first quarter of 2010.

GAAP Combined Ratio

The consolidated loss and loss adjustment expense ratio of 64.0% in the first quarter of 2010 was 4.3 points higher than the loss and loss adjustment expense ratio of 59.7% in the same 2009 period. Catastrophe losses accounted for 9.0 points of the 2010 first quarter loss and loss adjustment expense ratio, whereas the 2009 first quarter loss and loss adjustment expense ratio included a 1.6 point impact from catastrophe losses. The 2010 and 2009 first quarter loss and loss adjustment expense ratios included a 5.6 point and a 4.9 point benefit from net favorable prior year reserve development, respectively. The loss and loss adjustment expense ratio adjusted for catastrophe losses and prior year reserve development in the first quarter of 2010 was 2.4 points lower than the 2009 first quarter ratio on the same basis, primarily reflecting a decline in non-catastrophe weather-related losses (principally in the Personal Insurance segment). In addition, the loss ratio reported in the first quarter of 2009 did not reflect the favorable re-estimation (primarily in the Business Insurance segment) that occurred in the second half of 2009.

The underwriting expense ratio of 32.4% for the first quarter of 2010 was 1.5 points higher than the first quarter 2009 underwriting expense ratio of 30.9%. The 2009 ratio reflected a 1.2 point benefit resulting from the $61 million reduction in the estimate of property windpool assessments related to Hurricane Ike that had been recorded in general and administrative expenses. Adjusting for those assessments in 2009, the underwriting expense ratio in the first quarter of 2010 was 0.3 points higher than in the same period of 2009, reflecting continued investments to support business growth and product development, including the Company s direct to consumer initiative in the Personal Insurance segment, as well as the impact of the decline in earned premiums.

RESULTS OF OPERATIONS BY SEGMENT

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

Business Insurance

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

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

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

(for the three months ended March 31, in millions)	2010	2009
Revenues		
Premiums	**$ 2,628**	$ 2,757
Net investment income	**528**	355
Fee income	**79**	73
Other revenues	**6**	6
Total revenues	**$ 3,241**	$ 3,191
Total claims and expenses	**$ 2,489**	$ 2,534
Operating income	**$ 567**	$ 547
Loss and loss adjustment expense ratio	**58.7%**	57.8%
Underwriting expense ratio	**32.7**	31.2
GAAP combined ratio	**91.4%**	89.0%

Overview

Operating income of $567 million in the first quarter of 2010 was $20 million, or 4%, higher than operating income of $547 million in the same period of 2009, primarily reflecting increases in net investment income and net favorable prior year reserve development, which were largely offset by an increase in catastrophe losses. In addition, operating income in 2009 included a benefit of $38 million from the favorable resolution of various prior year tax matters and a $26 million reduction in the estimate of property windpool assessments related to Hurricane Ike. Net favorable prior year reserve development totaled $242 million in the first quarter of 2010, compared with $182 million in the same 2009 period. Catastrophe losses in the first quarter of 2010 totaled $135 million, compared with $12 million in the same period of 2009.

Earned Premiums

Earned premiums of $2.63 billion in the first quarter of 2010 decreased $129 million, or 5%, from the same period of 2009 despite strong business retention levels, primarily attributable to reduced insured exposures due to lower levels of economic activity.

Net Investment Income

Net investment income in this segment in the first quarter of 2010 increased $173 million over the same 2009 period. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the increase in the Company s consolidated net investment income in the first quarter of 2010 compared with the same period of 2009.

Fee Income

National Accounts is the primary source of fee income due to its service businesses, which include claim and loss prevention services to large companies that choose to self-insure a portion of their insurance risks, as well as claims and policy management services to workers compensation residual market pools. Fee income in the first quarter of 2010 increased by $6 million over the same 2009 period, primarily reflecting a loss-sensitive fee adjustment made in the first quarter of 2009 that reduced reported fee income. Notwithstanding the current quarter increase, fee income in recent quarters has typically reflected lower serviced premium and claim volume due to the de-population of workers compensation residual market pools, the impact of both lower claim volume and lower loss costs (as fees are based either on the number of claims serviced or as a percentage of losses) driven by workers compensation reforms and overall lower claim frequency.Lower new business volume due to lower levels of economic activity and increased competition also contributed to the lack of significant growth in fee income in recent quarters.

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Claims and Expenses

Claims and claim adjustment expenses in the first quarter of 2010 totaled $1.58 billion, a decrease of $35 million, or 2%, from the same 2009 period, primarily reflecting an increase in net favorable prior year reserve development, which was largely offset by an increase in catastrophe losses. Net favorable prior year reserve development totaled $242 million in the first quarter of 2010, compared with net favorable prior year reserve development of $182 million in the same 2009 period. The 2010 total was driven by better than expected loss results primarily concentrated in the general liability, property and commercial multi-peril product lines for recent accident years. In the general liability product line, what the Company believes to be continued improvement in legal and judicial environments resulted in better than expected loss results for umbrella and excess casualty coverages. The improvement in the commercial multi-peril product line reflected what the Company believes to be improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The property product line improvement primarily occurred in the 2009 accident year as a result of better than expected claim emergence trends in the inland marine and ocean marine lines of business. Catastrophe losses in the first quarter of 2010 totaled $135 million, compared with $12 million in the same 2009 period. Catastrophe losses in the first three months of 2010 primarily resulted from several severe winter, wind and hail storms in the eastern United States.

Net favorable prior year reserve development in the first quarter of 2009 was driven by better than expected loss results primarily concentrated in the general liability, commercial multi-peril, property and commercial automobile product lines for recent accident years. The general liability and commercial multi-peril product lines experienced better than anticipated loss development that was attributable to several factors, including what the Company believes to be improved legal and judicial environments, as well as enhanced risk control, underwriting and claim process initiatives. The property product line improvement primarily occurred in the latter part of the 2008 accident year as a result of better than expected claim emergence trends in the inland marine line of business. The commercial automobile line of business experienced better than expected loss development which was attributable to what the Company believes to be more favorable legal and judicial environments, claim handling initiatives focused on the automobile line of insurance and improvements in auto safety technology.

The amortization of deferred acquisition costs totaled $425 million in the first quarter of 2010, 5% lower than the comparable 2009 total of $449 million, consistent with the decline in earned premiums.

General and administrative expenses in the first quarter of 2010 totaled $481 million, $14 million, or 3%, higher than the comparable total of $467 million in the same period of 2009. The 2009 total reflected a $26 million reduction in the estimate of property windpool assessments related to Hurricane Ike that had been recorded in general and administrative expenses. Adjusting for that reduction in 2009, general and administrative expenses in the first quarter of 2010 were $12 million lower than in the first quarter of 2009, primarily reflecting lower expense related to operations in runoff.

GAAP Combined Ratio

The loss and loss adjustment expense ratio in the first quarter of 2010 of 58.7% was 0.9 points higher than the comparable 2009 ratio of 57.8%. Net favorable prior year reserve development in 2010 provided a 9.2 point benefit to the loss and loss adjustment expense ratio, whereas net favorable prior year reserve development in 2009 accounted for a 6.6 point benefit to the loss and loss adjustment expense ratio. Catastrophe losses in the first quarters of 2010 and 2009 accounted for 5.1 points and 0.4 points, respectively, of the loss and loss adjustment expense ratio. The 2010 first quarter loss and loss adjustment expense ratio adjusted for catastrophe losses and prior year reserve development was 1.2 points lower than the 2009 ratio on the same basis. The loss ratio reported in the first quarter of 2009 did not reflect the favorable re-estimation that occurred in the second half of 2009. The underwriting expense ratio of 32.7% for the first quarter of 2010 was 1.5 points higher than the comparable 2009 ratio. The 2009 ratio reflected a 0.9 point benefit from the reduction in the estimate of property windpool assessments related to Hurricane Ike that had been recorded in general and administrative expenses. Adjusting for the impact of those assessments in 2009, the underwriting expense ratio in the first quarter of 2010 was 0.6 points higher than in the same 2009 period, reflecting the impact of the decline in earned premiums in 2010.

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Written Premiums

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

(for the three months ended March 31, in millions)	Gross Written Premiums 2010		2009
Select Accounts	$	**710**	$ 738
Commercial Accounts		**750**	754
National Accounts		**327**	409
Industry-Focused Underwriting		**615**	660
Target Risk Underwriting		**501**	517
Specialized Distribution		**216**	223
Total Business Insurance Core		**3,119**	3,301
Business Insurance Other		**(1)**	(7)
Total Business Insurance	$	**3,118**	$ 3,294

(for the three months ended March 31, in millions)	Net Written Premiums 2010		2009
Select Accounts	$	**702**	$ 731
Commercial Accounts		**706**	710
National Accounts		**226**	259
Industry-Focused Underwriting		**569**	617
Target Risk Underwriting		**412**	422
Specialized Distribution		**215**	222
Total Business Insurance Core		**2,830**	2,961
Business Insurance Other		**4**	2
Total Business Insurance	$	**2,834**	$ 2,963

In Business Insurance Core, gross and net written premiums in the first quarter of 2010 decreased 6% and 4%, respectively, from the same period of 2009. The difference in rates of decline between gross and net written premiums in the first quarter of 2009 was concentrated in Residual Markets within National Accounts. A significant portion of gross written premiums for products offered by Residual Markets is ceded to other insurers and residual market pools. As a result, the decline in gross written premiums did not have a proportional impact on net written premiums. The decline in gross and net written premiums in the first quarter of 2010 was driven in large part by lower levels of economic activity in recent quarters that impacted exposure changes at renewal, audit premium adjustments, policy endorsements and mid-term cancellations.

Select Accounts. Net written premiums of $702 million in the first quarter of 2010 decreased 4% from the same 2009 period, primarily due to reduced insured exposures driven by lower levels of economic activity. Business retention rates remained strong, but declined from the prior year quarter. Renewal premium changes were positive in the first quarter of 2010 and increased over the same period of 2009, reflecting positive renewal rate changes. New business volume in 2010 declined from the first quarter of 2009, driven by lower business volumes in larger, more complex accounts where marketplace competition remains high.

Commercial Accounts. Net written premiums of $706 million in the first quarter of 2010 decreased slightly from the same prior year quarter, primarily due to reduced insured exposures driven by lower levels of economic activity. Business retention rates in the first quarter of 2010 remained strong but declined slightly from the prior year quarter. Renewal premium changes were slightly negative in 2010 but improved over the same 2009 period, as the impact of positive renewal rate changes on premiums was partially offset by reduced insured exposures due to lower levels of economic activity. New business levels increased when compared with the first quarter of 2009 due to various product and customer initiatives.

National Accounts. Net written premiums of $226 million in the first quarter of 2010 decreased 13% from the first quarter of 2009, due to reduced insured exposures driven by lower levels of economic activity and lower new business volume.

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Industry-Focused Underwriting. Net written premiums of $569 million in the first quarter of 2010 decreased 8% from the same 2009 period. The decline was concentrated in the Construction and Oil & Gas business units, reflecting market conditions in these industries.

Target Risk Underwriting. Net written premiums of $412 million in the first quarter of 2010 declined 2% from the prior year quarter, primarily concentrated in the Inland Marine and Ocean Marine business units, reflecting market conditions. National Property premium volume in the first quarter of 2010 increased over the same period of 2009. Business retention levels in National Property in the first quarter of 2010 increased over the same period of 2009.

Specialized Distribution. Net written premiums of $215 million in the first quarter of 2010 decreased 3% from the same prior year quarter. The decline was centered in the National Programs business unit. Renewal premium changes in National Programs in the first quarter of 2010 remained negative but improved slightly over the same period of 2009.

Financial, Professional & International Insurance

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

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

(for the three months ended March 31, in millions)	2010	2009
Revenues		
Premiums	**$ 824**	$ 801
Net investment income	**111**	104
Other revenues	**6**	6
Total revenues	**$ 941**	$ 911
Total claims and expenses	**$ 818**	$ 726
Operating income	**$ 86**	$ 148
Loss and loss adjustment expense ratio	**62.3%**	54.7%
Underwriting expense ratio	**36.6**	35.5
GAAP combined ratio	**98.9%**	90.2%

Overview

Operating income of $86 million in the first quarter of 2010 was $62 million, or 42%, lower than operating income in the same 2009 period, driven by $86 million of catastrophe losses resulting from an earthquake in Chile as well as non-catastrophe weather-related losses in the International group, partially offset by an increase in net favorable prior year reserve development. The prior year quarter also included an $8 million benefit from the favorable resolution of various prior year tax matters.

Earned Premiums

Earned premiums of $824 million in the first quarter of 2010 increased by 3% over the prior year quarter, which was primarily attributable to the favorable impact of foreign currency exchange rates. Adjusting for the impact of exchange rates, earned premiums were level with the first quarter of 2009.

Net Investment Income

Net investment income in this segment in the first quarter of 2010 increased $7 million over the same 2009 period. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the increase in the Company s consolidated net investment income in the first quarter of 2010 compared with the same period of 2009.

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Claims and Expenses

Claims and claim adjustment expenses in the first quarter of 2010 totaled $516 million, an increase of $74 million, or 17%, over the same 2009 period, reflecting $86 million of catastrophe losses primarily in the International group that resulted from an earthquake in Chile, as well as other non-catastrophe weather-related losses in the International group. There were no catastrophe losses incurred in the first quarter of 2009. Net favorable prior year reserve development totaled $34 million in the first quarter of 2010, compared with $12 million in the same period of 2009. The majority of net favorable prior year reserve development in 2010 occurred in the Bond & Financial Products group and was related to better than expected results for recent accident years for the directors and officers line of business for public companies and favorable loss experience in the surety line of business. Several lines of business at Lloyd s also experienced net favorable prior year reserve development in the first quarter of 2010.

The amortization of deferred acquisition costs totaled $153 million in the first quarter of 2010, 5% higher than the comparable 2009 total of $146 million. The increase was due to the increase in earned premiums in the first quarter of 2010 and lower profit-sharing commission expense in the first quarter of 2009. General and administrative expenses in the first quarter of 2010 totaled $149 million, 7% higher than the first quarter 2009 total of $138 million, reflecting increases in employee-related costs and the unfavorable impact of foreign currency exchange rates.

GAAP Combined Ratio

The loss and loss adjustment expense ratio of 62.3% in the first quarter of 2010 was 7.6 points higher than the 2009 first quarter ratio of 54.7%. Catastrophe losses in the first quarter of 2010 accounted for 10.4 points of the loss and loss adjustment expense ratio, whereas the first quarter 2009 ratio included no impact from catastrophes. The 2010 and 2009 first quarter ratios included a 4.2 point and 1.4 point benefits, respectively, from net favorable prior year reserve development. The 2010 first quarter loss and loss adjustment expense ratio adjusted for catastrophe losses and prior year reserve development was level with the 2009 ratio on the same basis. The underwriting expense ratio of 36.6% in the first quarter of 2010 was 1.1 points higher than the comparable 2009 ratio of 35.5%, primarily reflecting lower profit-sharing commission expense in the first quarter of 2009 and an increase in employee-related expenses in the first quarter of 2010.

Written Premiums

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

	Gross Written Premiums			
(for the three months ended March 31, in millions)		**2010**		**2009**
Bond & Financial Products	**$**	**529**	$	525
International		**369**		317
Total Financial, Professional & International Insurance	**$**	**898**	$	842

	Net Written Premiums			
(for the three months ended March 31, in millions)		**2010**		**2009**
Bond & Financial Products	**$**	**362**	$	334
International		**319**		229

Total Financial, Professional & International Insurance	**$**	**681**	$	563

The Financial, Professional & International Insurance segment s gross written premiums of $898 million in the first quarter of 2010 increased 7% over the same period of 2009, whereas net written premiums of $681 million increased 21% over the first quarter of 2009. The higher rate of growth in net written premiums was largely due to changes in the structure of the Company s reinsurance that directionally aligned retentions in the Company s International business with U.S. practices and, to a lesser extent, lower reinsurance costs. In addition, gross and net written premium growth in the first quarter of 2010 reflected the favorable impact of foreign currency exchange rates, new business volume in several lines of business at Lloyd s and in Ireland, and an increase in Construction Services business volume in

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the Bond & Financial Products group. Adjusting for the impact of foreign currency exchange rates in 2010, gross and net written premiums in the first quarter of 2010 increased 4% and 17%, respectively, over the same period of 2009. In the Bond & Financial Products group (excluding the surety line of business, for which the following are not relevant measures), business retention rates in the first quarter of 2010 remai