TRAVELERS COMPANIES, INC.
Form 10-Q
October 22, 2013
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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 September 30, 2013

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 (Do not check if a smaller reporting company)	o	Smaller reporting company	o

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

The number of shares of the Registrant s Common Stock, without par value, outstanding at October 18, 2013 was 364,067,675.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended September 30, 2013

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PART 1 FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

(in millions, except per share amounts)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenues				
Premiums	**$ 5,666**	$ 5,666	**$ 16,786**	$ 16,718
Net investment income	**657**	722	**2,014**	2,200
Fee income	**107**	92	**286**	233
Net realized investment gains (losses) (1)	**(22)**	(2)	**155**	12
Other revenues	**44**	34	**213**	100
Total revenues	**6,452**	6,512	**19,454**	19,263
Claims and expenses				
Claims and claim adjustment expenses	**3,297**	3,359	**9,980**	10,509
Amortization of deferred acquisition costs	**953**	986	**2,851**	2,933
General and administrative expenses	**934**	904	**2,780**	2,681
Interest expense	**91**	93	**269**	285
Total claims and expenses	**5,275**	5,342	**15,880**	16,408
Income before income taxes	**1,177**	1,170	**3,574**	2,855
Income tax expense	**313**	306	**889**	686
Net income	**$ 864**	$ 864	**$ 2,685**	$ 2,169
Net income per share				
Basic	**$ 2.33**	$ 2.23	**$ 7.12**	$ 5.55
Diluted	**$ 2.30**	$ 2.21	**$ 7.05**	$ 5.50
Weighted average number of common shares outstanding				
Basic	**368.9**	384.0	**374.1**	388.0
Diluted	**372.9**	387.9	**378.1**	391.5

(1) Total other-than-temporary impairment (OTTI) gains (losses) were $0 million and $17 million for the three months ended September 30, 2013 and 2012, respectively, and $(1) million and $28 million for the nine months ended September 30, 2013 and 2012, respectively. Of total OTTI, credit losses of $(3) million for each of the three months ended September 30, 2013 and 2012, and $(10) million and $(11) million for the nine months ended September 30, 2013 and 2012, respectively, were recognized in net realized investment gains (losses). In addition, unrealized gains from other changes in total OTTI of $3 million and $20 million for the three months ended September 30, 2013 and 2012,

respectively, and $9 million and $39 million for the nine months ended September 30, 2013 and 2012, respectively, were recognized in other comprehensive income (loss) as part of change in net unrealized gains on investment securities having credit losses recognized in the consolidated statement of income.

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(in millions)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income	**$ 864**	$ 864	**$ 2,685**	$ 2,169
Other comprehensive income (loss):				
Changes in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	**(204)**	470	**(2,370)**	609
Having credit losses recognized in the consolidated statement of income	**(2)**	41	**2**	71
Net changes in benefit plan assets and obligations	**24**	22	**78**	64
Net changes in unrealized foreign currency translation	**112**	65	**(57)**	43
Other comprehensive income (loss) before income taxes	**(70)**	598	**(2,347)**	787
Income tax expense (benefit)	**(55)**	192	**(816)**	256
Other comprehensive income (loss), net of taxes	**(15)**	406	**(1,531)**	531
Comprehensive income	**$ 849**	$ 1,270	**$ 1,154**	$ 2,700

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Fixed maturities, available for sale, at fair value (amortized cost $59,960 and $60,829)	**$ 62,102**	$ 65,393
Equity securities, available for sale, at fair value (cost $470 and $462)	**708**	645
Real estate investments	**917**	883
Short-term securities	**5,379**	3,483
Other investments	**3,425**	3,434
Total investments	**72,531**	73,838
Cash	**295**	330
Investment income accrued	**673**	752
Premiums receivable	**6,113**	5,872
Reinsurance recoverables	**9,544**	10,712
Ceded unearned premiums	**1,015**	856
Deferred acquisition costs	**1,802**	1,792
Deferred taxes	**321**	
Contractholder receivables	**4,450**	4,806
Goodwill	**3,365**	3,365
Other intangible assets	**347**	381
Other assets	**2,229**	2,234
Total assets	**$ 102,685**	$ 104,938
Liabilities		
Claims and claim adjustment expense reserves	**$ 49,153**	$ 50,922
Unearned premium reserves	**11,716**	11,241
Contractholder payables	**4,450**	4,806
Payables for reinsurance premiums	**438**	346
Deferred taxes		338
Debt	**6,346**	6,350
Other liabilities	**5,771**	5,530
Total liabilities	**77,874**	79,533
Shareholders equity		
Common stock (1,750.0 shares authorized; 364.1 and 377.4 shares issued and outstanding)	**21,425**	21,161
Retained earnings	**23,485**	21,352
Accumulated other comprehensive income	**705**	2,236
Treasury stock, at cost (390.1 and 372.3 shares)	**(20,804)**	(19,344)
Total shareholders equity	**24,811**	25,405
Total liabilities and shareholders equity	**$ 102,685**	$ 104,938

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the nine months ended September 30,	2013	2012
Common stock		
Balance, beginning of year	**$ 21,161**	$ 20,732
Employee share-based compensation	**122**	219
Compensation amortization under share-based plans and other changes	**142**	134
Balance, end of period	**21,425**	21,085
Retained earnings		
Balance, beginning of year	**21,352**	19,579
Net income	**2,685**	2,169
Dividends	**(552)**	(522)
Balance, end of period	**23,485**	21,226
Accumulated other comprehensive income, net of tax		
Balance, beginning of year	**2,236**	2,005
Other comprehensive income (loss)	**(1,531)**	531
Balance, end of period	**705**	2,536
Treasury stock (at cost)		
Balance, beginning of year	**(19,344)**	(17,839)
Treasury stock acquired share repurchase authorization	**(1,400)**	(1,050)
Net shares acquired related to employee share-based compensation plans	**(60)**	(53)
Balance, end of period	**(20,804)**	(18,942)
Total shareholders equity	**$ 24,811**	$ 25,905
Common shares outstanding		
Balance, beginning of year	**377.4**	392.8
Treasury stock acquired share repurchase authorization	**(17.0)**	(17.0)
Net shares issued under employee share-based compensation plans	**3.7**	6.2
Balance, end of period	**364.1**	382.0

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

For the nine months ended September 30,	2013	2012
Cash flows from operating activities		
Net income	$ 2,685	$ 2,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	(155)	(12)
Depreciation and amortization	642	618
Deferred federal income tax expense	132	221
Amortization of deferred acquisition costs	2,851	2,933
Equity in income from other investments	(247)	(271)
Premiums receivable	(242)	(307)
Reinsurance recoverables	1,102	926
Deferred acquisition costs	(2,862)	(3,005)
Claims and claim adjustment expense reserves	(1,684)	(1,196)
Unearned premium reserves	483	506
Other	184	184
Net cash provided by operating activities	2,889	2,766
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	5,917	5,855
Proceeds from sales of investments:		
Fixed maturities	1,160	724
Equity securities	57	31
Real estate investments		3
Other investments	545	516
Purchases of investments:		
Fixed maturities	(6,492)	(7,677)
Equity securities	(50)	(39)
Real estate investments	(65)	(62)
Other investments	(312)	(292)
Net purchases of short-term securities	(1,893)	(41)
Securities transactions in course of settlement	280	53
Other	(254)	(229)
Net cash used in investing activities	(1,107)	(1,158)
Cash flows from financing activities		
Payment of debt	(500)	(258)
Issuance of debt	494	
Dividends paid to shareholders	(549)	(519)
Issuance of common stock employee share options	158	247
Treasury stock acquired share repurchase authorization	(1,400)	(1,056)
Treasury stock acquired net employee share-based compensation	(60)	(52)
Excess tax benefits from share-based payment arrangements	43	32
Net cash used in financing activities	(1,814)	(1,606)
Effect of exchange rate changes on cash	(3)	4
Net increase (decrease) in cash	(35)	6
Cash at beginning of year	330	214
Cash at end of period	$ 295	$ 220

Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**724**	$	310
Interest paid	**$**	**206**	$	226

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company s management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s 2012 Annual Report on Form 10-K.

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

Adoption of Accounting Standards Updates

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (FASB) issued updated guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement of income or in the notes, separately for each component of comprehensive income, the current period reclassifications out of accumulated other comprehensive income by the respective line items of net income affected by the reclassification.

The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the updated guidance effective March 31, 2013, and such adoption did not have any effect on the Company s results of operations, financial position or liquidity.

Accounting Standard Not Yet Adopted

Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the FASB issued updated guidance to resolve diversity in practice concerning the release of the cumulative foreign currency translation adjustment into net income when a parent sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. When a company ceases to have a controlling financial interest in a subsidiary within a foreign entity, the company should recognize any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary had resided. Upon the partial sale of an equity method investment that is a foreign entity, the company should release into earnings a pro rata portion of the cumulative translation adjustment. Upon the partial sale of an equity method investment that is not a foreign entity, the company should release into earnings the cumulative translation adjustment if the partial sale represents a complete or substantially complete liquidation of the foreign entity that holds the equity method investment. The updated guidance is effective for the quarter ending March 31, 2014. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company s results of operations, financial position or liquidity.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), (Continued)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

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 other runoff operations, which collectively are referred to as Business Insurance Other.

Financial, Professional & International Insurance

The Financial, Professional & International Insurance segment includes surety and financial liability coverages, which primarily use credit-based underwriting processes, as well as property and casualty products that are primarily marketed on a domestic basis in the United Kingdom, Canada and the Republic of Ireland, and on an international basis through Lloyd s. The segment includes Bond & Financial Products as well as International. In addition, the Company owns 49.5% of the common stock of J. Malucelli Participações em Seguros e Resseguros S.A. (JMalucelli), its joint venture in Brazil. JMalucelli is currently the market leader in surety in Brazil based on market share, and commenced writing other property and casualty insurance business in 2012. The Company s investment in JMalucelli is accounted for using the equity method and is included in other investments on the consolidated balance sheet.

On June 10, 2013, the Company entered into a definitive agreement to acquire all of the issued and outstanding shares of The Dominion of Canada General Insurance Company (The Dominion) from E-L Financial Corporation Limited (E-L Financial) for an aggregate purchase price of C$1.125 billion (approximately US$1.092 billion at September 30, 2013), subject to adjustment to reflect changes in shareholder s equity prior to the closing, including a downward adjustment to reflect an anticipated pre-closing dividend. The purchase price is expected to be funded through a combination of internal funds and proceeds from the Company s issuance of senior debt. While the Company has not received final regulatory approvals for its acquisition of The Dominion, the Company expects to receive the remaining approvals and, subject to the satisfaction of customary closing conditions, to close the transaction in the fourth quarter of 2013. The Dominion primarily markets personal lines and small commercial insurance business in Canada. The results of operations of the acquired business will be reported in the Company s Financial, Professional & International Insurance segment from the date of closing.

Personal Insurance

The Personal Insurance segment writes a broad range of property and casualty insurance covering individuals personal risks. The primary products of automobile and homeowners insurance are complemented by a broad suite of related coverages.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), (Continued)

2. SEGMENT INFORMATION

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

(for the three months ended September 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2013				
Premiums	**$ 3,046**	**$ 785**	**$ 1,835**	**$ 5,666**
Net investment income	**479**	**88**	**90**	**657**
Fee income	**106**	**1**		**107**
Other revenues	**8**	**5**	**34**	**47**
Total operating revenues (1)	**$ 3,639**	**$ 879**	**$ 1,959**	**$ 6,477**
Operating income (1)	**$ 526**	**$ 160**	**$ 262**	**$ 948**
2012				
Premiums	$ 2,982	$ 772	$ 1,912	$ 5,666
Net investment income	524	97	101	722
Fee income	92			92
Other revenues	9	8	17	34
Total operating revenues (1)	$ 3,607	$ 877	$ 2,030	$ 6,514
Operating income (1)	$ 543	$ 180	$ 206	$ 929

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

(for the nine months ended September 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2013				
Premiums	**$ 9,006**	**$ 2,271**	**$ 5,509**	**$ 16,786**
Net investment income	**1,468**	**271**	**275**	**2,014**
Fee income	**285**	**1**		**286**
Other revenues	**135**	**15**	**67**	**217**
Total operating revenues (1)	**$ 10,894**	**$ 2,558**	**$ 5,851**	**$ 19,303**
Operating income (1)	**$ 1,695**	**$ 477**	**$ 601**	**$ 2,773**

2012								
Premiums	$	8,718	$	2,275	$	5,725	$	16,718
Net investment income		1,592		300		308		2,200
Fee income		232		1				233
Other revenues		31		21		52		104
Total operating revenues (1)	$	10,573	$	2,597	$	6,085	$	19,255
Operating income (1)	$	1,517	$	511	$	331	$	2,359

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenue reconciliation				
Earned premiums				
Business Insurance:				
Workers compensation	**$ 896**	$ 841	**$ 2,640**	$ 2,378
Commercial automobile	**476**	488	**1,425**	1,462
Commercial property	**432**	414	**1,259**	1,207
General liability	**452**	444	**1,333**	1,313
Commercial multi-peril	**779**	785	**2,320**	2,333
Other	**11**	10	**29**	25
Total Business Insurance	**3,046**	2,982	**9,006**	8,718
Financial, Professional & International Insurance:				
Fidelity and surety	**235**	240	**683**	699
General liability	**227**	216	**661**	633
International	**279**	274	**795**	818
Other	**44**	42	**132**	125
Total Financial, Professional & International Insurance	**785**	772	**2,271**	2,275
Personal Insurance:				
Automobile	**855**	916	**2,591**	2,762
Homeowners and other	**980**	996	**2,918**	2,963
Total Personal Insurance	**1,835**	1,912	**5,509**	5,725
Total earned premiums	**5,666**	5,666	**16,786**	16,718
Net investment income	**657**	722	**2,014**	2,200
Fee income	**107**	92	**286**	233
Other revenues	**47**	34	**217**	104
Total operating revenues for reportable segments	**6,477**	6,514	**19,303**	19,255
Other revenues	**(3)**		**(4)**	(4)
Net realized investment gains (losses)	**(22)**	(2)	**155**	12
Total consolidated revenues	**$ 6,452**	$ 6,512	**$ 19,454**	$ 19,263

Income reconciliation, net of tax

Total operating income for reportable segments	**$**	**948**	$	929	**$**	**2,773**	$	2,359
Interest Expense and Other (1)		**(65)**		(62)		**(187)**		(196)
Total operating income		**883**		867		**2,586**		2,163
Net realized investment gains (losses)		**(19)**		(3)		**99**		6
Total consolidated net income	**$**	**864**	$	864	**$**	**2,685**	$	2,169

(1) The primary component of Interest Expense and Other is after-tax interest expense of $59 million and $60 million in the three months ended September 30, 2013 and 2012, respectively, and $175 million and $185 million in the nine months ended September 30, 2013 and 2012, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)		September 30, 2013		December 31, 2012
Asset reconciliation:				
Business Insurance	**$**	**74,931**	$	76,972
Financial, Professional & International Insurance		**14,084**		13,452
Personal Insurance		**13,173**		14,195
Total assets for reportable segments		**102,188**		104,619
Other assets (1)		**497**		319
Total consolidated assets	**$**	**102,685**	$	104,938

(1) The primary components of other assets at September 30, 2013 were deferred taxes and other intangible assets. The primary component of other assets at December 31, 2012 was other intangible assets.

3. INVESTMENTS

Fixed Maturities

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

(at September 30, 2013, 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	**$**	**2,069**	**$**	**48**	**$**	**8**	**$**	**2,109**
Obligations of states, municipalities and political subdivisions:								
Pre-refunded		**9,141**		**489**		**1**		**9,629**
All other		**25,817**		**1,137**		**333**		**26,621**
Total obligations of states, municipalities and political subdivisions		**34,958**		**1,626**		**334**		**36,250**
Debt securities issued by foreign governments		**1,937**		**40**		**3**		**1,974**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		**2,337**		**191**		**12**		**2,516**

All other corporate bonds	**18,633**	**833**	**245**	**19,221**
Redeemable preferred stock	**26**	**6**		**32**
Total	**$ 59,960**	**$ 2,744**	**$ 602**	**$ 62,102**

	Amortized	Gross Unrealized		Fair
(at December 31, 2012, in millions)	**Cost**	**Gains**	**Losses**	**Value**
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,148	$ 75	$ 1	$ 2,222
Obligations of states, municipalities and political subdivisions:				
Pre-refunded	8,458	567		9,025
All other	27,405	2,262	11	29,656
Total obligations of states, municipalities and political subdivisions	35,863	2,829	11	38,681
Debt securities issued by foreign governments	2,185	72		2,257
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,744	255	2	2,997
All other corporate bonds	17,863	1,360	20	19,203
Redeemable preferred stock	26	7		33
Total	$ 60,829	$ 4,598	$ 34	$ 65,393

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Pre-refunded bonds of $9.63 billion and $9.03 billion at September 30, 2013 and December 31, 2012, respectively, are bonds for which states or municipalities have established irrevocable trusts, almost exclusively comprised of U.S. Treasury securities, which were created to satisfy their responsibility for payments of principal and interest.

Equity Securities

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

(at September 30, 2013, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	**$ 380**	**$ 205**	**$ 1**	**$ 584**
Non-redeemable preferred stock	**90**	**35**	**1**	**124**
Total	**$ 470**	**$ 240**	**$ 2**	**$ 708**

(at December 31, 2012, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 366	$ 148	$ 4	$ 510
Non-redeemable preferred stock	96	39		135
Total	$ 462	$ 187	$ 4	$ 645

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at September 30, 2013 and December 31, 2012, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in the tables are estimates that are prepared using the process described in note 4.

(at September 30, 2013, in millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized

		Losses		Losses		Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ **238**	$ **8**	$	$	$ **238**	$ **8**
Obligations of states, municipalities and political subdivisions	**4,852**	**333**	**11**	**1**	**4,863**	**334**
Debt securities issued by foreign governments	**420**	**3**			**420**	**3**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**436**	**10**	**22**	**2**	**458**	**12**
All other corporate bonds	**5,481**	**231**	**107**	**14**	**5,588**	**245**
Total fixed maturities	**11,427**	**585**	**140**	**17**	**11,567**	**602**
Equity securities						
Common stock	**37**	**1**			**37**	**1**
Non-redeemable preferred stock	**28**	**1**			**28**	**1**
Total equity securities	**65**	**2**			**65**	**2**
Total	$ **11,492**	$ **587**	$ **140**	$ **17**	$ **11,632**	$ **604**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at December 31, 2012, in millions)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized Losses	12 months or longer Fair Value	12 months or longer Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 589	$ 1	$	$	$ 589	$ 1
Obligations of states, municipalities and political subdivisions	611	9	45	2	656	11
Debt securities issued by foreign governments	186		2		188	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	70		36	2	106	2
All other corporate bonds	1,097	13	89	7	1,186	20
Total fixed maturities	2,553	23	172	11	2,725	34
Equity securities						
Common stock	40	4			40	4
Non-redeemable preferred stock	13				13	
Total equity securities	53	4			53	4
Total	$ 2,606	$ 27	$ 172	$ 11	$ 2,778	$ 38

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 September 30, 2013, 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:

(in millions)	Period For Which Fair Value Is Less Than 80% of Amortized Cost: 3 Months or Less	Greater Than 3 Months, 6 Months or Less	Greater Than 6 Months, 12 Months or Less	Greater Than 12 Months	Total
Fixed maturities					
Mortgage-backed securities	**$**	**$**	**$**	**$**	**$**
Other	**5**	**2**		**4**	**11**
Total fixed maturities	**5**	**2**		**4**	**11**
Equity securities	**1**				**1**
Total	**$ 6**	**$ 2**	**$**	**$ 4**	**$ 12**

These unrealized losses at September 30, 2013 represented less than 1% of the combined fixed maturity and equity security portfolios on a pretax basis and less than 1% of shareholders equity on an after-tax basis.

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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:

(in millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	**$**	$	**$**	$
Obligations of states, municipalities and political subdivisions				
Debt securities issued by foreign governments				
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities			**2**	3
All other corporate bonds		1		4
Redeemable preferred stock				
Total fixed maturities		1	**2**	7
Equity securities				
Common stock	**2**	1	**3**	1
Non-redeemable preferred stock		1		1
Total equity securities	**2**	2	**3**	2
Other investments	**1**		**5**	2
Total	**$ 3**	$ 3	**$ 10**	$ 11

The following tables present the changes during the reporting period in the credit component of other-than-temporary impairments (OTTI) on fixed maturities recognized in the consolidated statement of income for which a portion of the OTTI was recognized in other comprehensive income:

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

	2013					
(for the three months ended September 30, in millions)	**Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Period**	**Additions for OTTI Securities Where No Credit Losses Were Previously Recognized**	**Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized**	**Reductions Due to Sales/Defaults of Credit-Impaired Securities**	**Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows**	**Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period**
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**$ 67**	**$**	**$**	**$**	**$ 2**	**$ 69**
All other corporate bonds	**104**				**1**	**105**
Total fixed maturities	**$ 171**	**$**	**$**	**$**	**$ 3**	**$ 174**
(for the nine months ended September 30, in millions)						
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**$ 63**	**$**	**$ 2**	**$**	**$ 4**	**$ 69**
All other corporate bonds	**102**				**3**	**105**
Total fixed maturities	**$ 165**	**$**	**$ 2**	**$**	**$ 7**	**$ 174**

	2012					
(for the three months ended September 30, in millions)	**Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Period**	**Additions for OTTI Securities Where No Credit Losses Were Previously Recognized**	**Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized**	**Reductions Due to Sales/Defaults of Credit-Impaired Securities**	**Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows**	**Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period**
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 61	$	$	$ (1)	$ 1	$ 61
All other corporate bonds	99		1		1	101
Total fixed maturities	$ 160	$	$ 1	$ (1)	$ 2	$ 162

(for the nine months ended September 30, in millions)						
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 58	$	$ 3	$ (1)	$ 1	$ 61
All other corporate bonds	94		4		3	101
Total fixed maturities	$ 152	$	$ 7	$ (1)	$ 4	$ 162

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Derivative Financial Instruments

From time to time, the Company enters into U.S. Treasury futures contracts to modify the effective duration of specific assets within the investment portfolio. U.S. Treasury futures contracts require a daily mark-to-market and settlement with the broker. At September 30, 2013 and December 31, 2012, the Company had $0 and $800 million notional value of open U.S. Treasury futures contracts, respectively. Net realized investment gains (losses) in the three months ended September 30, 2013 and 2012 included net gains of $0 and net losses of $8 million, respectively, related to U.S. Treasury futures contracts. Net realized investment gains (losses) in the nine months ended September 30, 2013 and 2012 included net gains of $115 million and net losses of $15 million, respectively, related to U.S. Treasury futures contracts.

4. FAIR VALUE MEASUREMENTS

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

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

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

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Fixed Maturities

The Company utilized a pricing service to estimate fair value measurements for approximately 98% of its fixed maturities at both September 30, 2013 and December 31, 2012. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

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

The pricing service utilized by the Company has indicated that it 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 also holds certain fixed maturity investments which are not priced by the pricing service and, accordingly, estimates the fair value of such fixed maturities using an internal matrix that is based on market information regarding interest rates, credit spreads and liquidity. The underlying source data for calculating the matrix of credit spreads relative to the U.S. Treasury curve are the BofA Merrill Lynch U.S. Corporate Index and the BofA Merrill Lynch High Yield BB Rated Index. The Company includes the fair value estimates of these corporate bonds in Level 2, since all significant inputs are market observable.

While the vast majority of the Company s municipal bonds and corporate bonds are included in Level 2, the Company holds a number of municipal bonds and corporate bonds which are not valued by the pricing service and estimates the fair value of these bonds using an internal pricing matrix with some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3. The fair value of the fixed maturities for which the Company used an internal pricing matrix was $103 million at September 30, 2013 and $102 million at December 31, 2012. Additionally, the Company holds a small amount of other fixed maturity investments that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker (primarily the market maker). The fair value of the fixed maturities for which the Company received a broker quote was $150 million and $128 million at September 30, 2013 and December 31, 2012, respectively. Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

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. When current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company, the Company receives an estimate of fair value from the pricing service that provides fair value estimates for the Company s fixed maturities. The service utilizes some of the same methodologies to price the non-redeemable preferred stocks as it does for the fixed maturities. The Company includes the fair value estimate for these non-redeemable preferred stocks in the amount disclosed in Level 2.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Other Investments

The Company holds investments in various publicly-traded securities which are reported in other investments. These investments include securities in the Company s trading portfolio, mutual funds and other small holdings. The $18 million and $46 million fair value of these investments at September 30, 2013 and December 31, 2012, respectively, was disclosed in Level 1. At September 30, 2013 and December 31, 2012, the Company held investments in non-public common and preferred equity securities, with fair value estimates of $32 million and $54 million, respectively, reported in other investments, where the fair value estimate is determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the total fair value estimate for all of these investments at September 30, 2013 and December 31, 2012 in the amount disclosed in Level 3.

Derivatives

At September 30, 2013 and December 31, 2012, the Company held $20 million and $21 million, respectively, of convertible bonds containing embedded conversion options that are valued separately from the host bond contract in the amount disclosed in Level 2 fixed maturities.

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company s financial assets and financial liabilities reported at fair value are measured on a recurring basis at September 30, 2013 and December 31, 2012. An investment transferred between levels during a period is transferred at its fair value as of the beginning of that period.

(at September 30, 2013, 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	$ 2,109	$ 2,092	$ 17	$

and authorities				
Obligations of states, municipalities and political subdivisions	**36,250**	**2**	**36,224**	**24**
Debt securities issued by foreign governments	**1,974**		**1,974**	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**2,516**		**2,484**	**32**
All other corporate bonds	**19,221**		**19,024**	**197**
Redeemable preferred stock	**32**		**32**	
Total fixed maturities	**62,102**	**2,094**	**59,755**	**253**
Equity securities				
Common stock	**584**	**584**		
Non-redeemable preferred stock	**124**	**24**	**100**	
Total equity securities	**708**	**608**	**100**	
Other investments	**50**	**18**		**32**
Total	**$ 62,860**	**$ 2,720**	**$ 59,855**	**$ 285**

During the nine months ended September 30, 2013, the Company had transfers of $32 million of redeemable preferred stock and $59 million of non-redeemable preferred stock from Level 1 to Level 2. The Company also had transfers of $3 million of non-redeemable preferred stock from Level 2 to Level 1.

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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, 2012, 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	$ 2,222	$ 2,205	$ 17	$
Obligations of states, municipalities and political subdivisions	38,681		38,653	28
Debt securities issued by foreign governments	2,257		2,257	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	2,997		2,992	5
All other corporate bonds	19,203		19,006	197
Redeemable preferred stock	33	32	1	
Total fixed maturities	65,393	2,237	62,926	230
Equity securities				
Common stock	510	510		
Non-redeemable preferred stock	135	92	43	
Total equity securities	645	602	43	
Other investments	100	46		54
Total	$ 66,138	$ 2,885	$ 62,969	$ 284

During the year ended December 31, 2012, the Company had transfers of $4 million of non-redeemable preferred stock from Level 1 to Level 2.

The following tables present the changes in the Level 3 fair value category during the three months and nine months ended September 30, 2013 and the twelve months ended December 31, 2012.

Three Months Ended September 30, 2013 (in millions)	Fixed Maturities	Other Investments	Total
Balance at June 30, 2013	**$ 225**	**$ 33**	**$ 258**
Total realized and unrealized investment gains (losses):			
Reported in net realized investment gains (1)	**1**	**(1)**	
Reported in increases (decreases) in other comprehensive income	**2**		**2**
Purchases, sales and settlements/maturities:			

Purchases		**42**				**42**
Sales		**(1)**				**(1)**
Settlements/maturities		**(11)**				**(11)**
Gross transfers into Level 3		**2**				**2**
Gross transfers out of Level 3		**(7)**				**(7)**
Balance at September 30, 2013	**$**	**253**	**$**	**32**	**$**	**285**
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	**$**		**$**		**$**	

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Nine Months Ended September 30, 2013 (in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2012	$ 230	$ 54	$ 284
Total realized and unrealized investment gains (losses):			
Reported in net realized investment gains (1)	3	12	15
Reported in increases (decreases) in other comprehensive income		(1)	(1)
Purchases, sales and settlements/maturities:			
Purchases	119		119
Sales	(25)	(33)	(58)
Settlements/maturities	(58)		(58)
Gross transfers into Level 3	15		15
Gross transfers out of Level 3	(31)		(31)
Balance at September 30, 2013	$ 253	$ 32	$ 285
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	$	$	$

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

Twelve Months Ended December 31, 2012 (in millions)	Fixed Maturities	Other Investments	Total
Balance at December 31, 2011	$ 250	$ 44	$ 294
Total realized and unrealized investment gains (losses):			
Reported in net realized investment gains (1)	4	5	9
Reported in increases (decreases) in other comprehensive income	5	2	7
Purchases, sales and settlements/maturities:			
Purchases	79	3	82
Sales			
Settlements/maturities	(94)		(94)
Gross transfers into Level 3	10		10
Gross transfers out of Level 3	(24)		(24)
Balance at December 31, 2012	$ 230	$ 54	$ 284
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	$	$	$

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

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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 following tables present the carrying value and fair value of the Company s financial assets and financial liabilities disclosed, but not carried, at fair value at September 30, 2013 and December 31, 2012, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis.

(at September 30, 2013, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	**$ 5,379**	**$ 5,379**	**$ 1,995**	**$ 3,323**	**$ 61**
Financial liabilities:					
Debt	**$ 6,246**	**$ 7,239**	**$**	**$ 7,239**	**$**
Commercial paper	**$ 100**	**$ 100**	**$**	**$ 100**	**$**

(at December 31, 2012, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	$ 3,483	$ 3,483	$ 1,448	$ 1,957	$ 78
Financial liabilities:					
Debt	$ 6,250	$ 7,715	$	$ 7,715	$
Commercial paper	$ 100	$ 100	$	$ 100	$

The Company utilized a pricing service to estimate fair value for approximately 98% and 95% of short-term securities at September 30, 2013 and December 31, 2012, respectively. A description of the process and inputs used by the pricing service to estimate fair value is discussed in the *Fixed Maturities* section above. Estimates of fair value for U.S. Treasury securities and money market funds are based on market quotations received from the pricing service and are disclosed in Level 1 of the hierarchy. The fair value of other short-term fixed maturity securities is estimated by the pricing service using observable market inputs and is disclosed in Level 2 of the hierarchy. For short-term securities where an estimate is not obtained from the pricing service, the carrying value approximates fair value and is included in Level 3 of the hierarchy.

The Company utilized a pricing service to estimate fair value for 100% of its debt, including commercial paper, at both September 30, 2013 and December 31, 2012. The pricing service utilizes market quotations for debt 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 fair value estimates are based on market observable inputs and disclosed in Level 2 of the hierarchy.

The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the nine months ended September 30, 2013 or twelve months ended December 31, 2012.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company s goodwill by segment at September 30, 2013 and December 31, 2012:

(in millions)	September 30, 2013	December 31, 2012
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 September 30, 2013 and December 31, 2012:

(at September 30, 2013, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	**$ 455**	**$ 406**	**$ 49**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	**191**	**109**	**82**
Total intangible assets subject to amortization	**646**	**515**	**131**
Intangible assets not subject to amortization	**216**		**216**
Total other intangible assets	**$ 862**	**$ 515**	**$ 347**

(at December 31, 2012, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	$ 455	$ 383	$ 72
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	191	98	93
Total intangible assets subject to amortization	646	481	165
Intangible assets not subject to amortization	216		216
Total other intangible assets	$ 862	$ 481	$ 381

(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:

(in millions)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Customer-related	**$ 8**	$ 8	**$ 23**	$ 26
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**3**	4	**11**	14
Total amortization expense	**$ 11**	$ 12	**$ 34**	$ 40

Intangible asset amortization expense is estimated to be $11 million for the remainder of 2013, $43 million in 2014, $23 million in 2015, $9 million in 2016, and $8 million in 2017.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in the Company s accumulated other comprehensive income (AOCI) for the nine months ended September 30, 2013.

(in millions)	Changes in Net Unrealized Gains on Investment Securities Having No Credit Losses Recognized in the Consolidated Statement of Income	Changes in Net Unrealized Gains on Investment Securities Having Credit Losses Recognized in the Consolidated Statement of Income	Net Benefit Plan Assets and Obligations Recognized in Shareholders Equity	Net Unrealized Foreign Currency Translation	Total Accumulated Other Comprehensive Income
Balance, December 31, 2012	**$ 2,908**	**$ 195**	**$ (857)**	**$ (10)**	**$ 2,236**
Other comprehensive income (loss) (OCI) before reclassifications	**(1,510)**	**1**	**(1)**	**(45)**	**(1,555)**
Amounts reclassified from AOCI	**(36)**	**1**	**51**	**8**	**24**
Net OCI, current period	**(1,546)**	**2**	**50**	**(37)**	**(1,531)**
Balance, September 30, 2013	**$ 1,362**	**$ 197**	**$ (807)**	**$ (47)**	**$ 705**

The following table presents the pretax and related income tax expense (benefit) components of the amounts reclassified from the Company s AOCI to the Company s consolidated statement of income for the three months and nine months ended September 30, 2013.

(in millions)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Reclassification adjustments related to unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income (1)	**$ (4)**	**$ (55)**
Income tax expense (2)	**(1)**	**(19)**
Net of taxes	**(3)**	**(36)**
Having credit losses recognized in the consolidated statement of income (1)		**2**

Income tax benefit (2)				**1**
Net of taxes				**1**
Reclassification adjustment related to benefit plan assets and obligations (3)		**26**		**78**
Income tax benefit (2)		**9**		**27**
Net of taxes		**17**		**51**
Reclassification adjustment related to foreign currency translation (1)		**11**		**8**
Income tax benefit (2)				
Net of taxes		**11**		**8**
Total reclassifications		**33**		**33**
Total income tax benefit		**8**		**9**
Total reclassifications, net of taxes	**$**	**25**	**$**	**24**

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

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

The following tables present the pretax components of other comprehensive income (loss) and related income tax expense (benefit) for the three months and nine months ended September 30, 2013 and 2012.

(for the three months ended September 30, in millions)	2013	2012
Changes in net unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income	**$ (204)**	$ 470
Income tax expense (benefit)	**(72)**	162
Net of taxes	**(132)**	308
Having credit losses recognized in the consolidated statement of income	**(2)**	41
Income tax expense (benefit)	**(1)**	15
Net of taxes	**(1)**	26
Net changes in benefit plan assets and obligations	**24**	22
Income tax expense	**9**	7
Net of taxes	**15**	15
Net changes in unrealized foreign currency translation	**112**	65
Income tax expense	**9**	8
Net of taxes	**103**	57
Total other comprehensive income (loss)	**(70)**	598
Total income tax expense (benefit)	**(55)**	192
Total other comprehensive income (loss), net of taxes	**$ (15)**	$ 406

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

(for the nine months ended September 30, in millions)	2013	2012
Changes in net unrealized gains on investment securities:		
Having no credit losses recognized in the consolidated statement of income	$ (2,370)	$ 609
Income tax expense (benefit)	(824)	212
Net of taxes	(1,546)	397
Having credit losses recognized in the consolidated statement of income	2	71
Income tax expense		25
Net of taxes	2	46
Net changes in benefit plan assets and obligations	78	64
Income tax expense	28	22
Net of taxes	50	42
Net changes in unrealized foreign currency translation	(57)	43
Income tax benefit	(20)	(3)
Net of taxes	(37)	46
Total other comprehensive income (loss)	(2,347)	787
Total income tax expense (benefit)	(816)	256
Total other comprehensive income (loss), net of taxes	$ (1,531)	$ 531

7. DEBT

Debt Issuance. On July 25, 2013, the Company issued $500 million aggregate principal amount of 4.60% senior notes that will mature on August 1, 2043. The net proceeds of the issuance, after original issuance discount and the deduction of underwriting expenses and commissions and other expenses, totaled approximately $494 million. Interest on the senior notes is payable semi-annually in arrears on February 1 and August 1, commencing on February 1, 2014. The senior notes are redeemable in whole at any time or in part from time to time, at the Company s option, at a redemption price equal to the greater of (a) 100% of the principal amount of senior notes to be redeemed or (b) the sum of the present value of the remaining scheduled payments of principal and interest on the senior notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the then current treasury rate (as defined) plus 15 basis points.

Debt Payment. On March 15, 2013, the Company s $500 million, 5.00% senior notes matured and were fully paid.

Credit Agreement. On June 7, 2013, the Company entered into a five-year, $1.0 billion revolving credit agreement with a syndicate of financial institutions, replacing its three-year $1.0 billion credit agreement that was due to expire on June 10, 2013. Pursuant to the credit agreement covenants, the Company must maintain a minimum consolidated net worth, defined as shareholders equity determined in accordance with GAAP plus (a) trust preferred securities (not to exceed 15% of total capital) and (b) mandatorily convertible securities (combined with trust preferred securities, not to exceed 25% of total capital) less goodwill and other intangible assets. That threshold is adjusted downward by an amount equal to 70% of the aggregate amount of common stock repurchased by the Company after March 31, 2013, up to a maximum deduction of $1.75 billion. The threshold was $14.71 billion at September 30, 2013 and could decline to a minimum of $13.73 billion during the term of the credit agreement, subject to the Company repurchasing an additional $1.40 billion of its common stock. In addition, the credit agreement contains other customary restrictive covenants as well as certain customary events of default,

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

7. DEBT, Continued

including with respect to a change in control, which is defined to include the acquisition of 35% or more of the Company s voting stock and certain changes in the composition of the Company s board of directors. At September 30, 2013, the Company was in compliance with these covenants. Generally, the cost of borrowing under this agreement will range from LIBOR plus 87.5 basis points to LIBOR plus 150 basis points, depending on the Company s credit ratings. At September 30, 2013, that cost would have been LIBOR plus 112.5 basis points, had there been any amounts outstanding under the credit agreement. This credit agreement also supports the Company s commercial paper program.

8. SHAREHOLDERS EQUITY

Share Repurchase Authorization. The Company s board of directors has approved common share repurchase authorizations under which repurchases may be made from time to time in the open market, pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company s financial position, earnings, share price, catastrophe losses, maintaining capital levels commensurate with the Company s desired ratings from independent rating agencies, funding of the Company s qualified pension plan, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions and related financings), market conditions and other factors. During the three months and nine months ended September 30, 2013, the Company repurchased 9.7 million and 17.0 million shares, respectively, under its share repurchase authorization, for a total cost of $800 million and $1.40 billion, respectively. The average cost per share repurchased was $82.21 and $82.12, respectively. At September 30, 2013, the Company had $759 million of capacity remaining under the share repurchase authorization. On October 22, 2013, the board of directors approved a share repurchase authorization that added an additional $5.0 billion of repurchase capacity to the $759 million of capacity remaining at September 30, 2013.

Shelf Registration Statement. At the Company s Annual Meeting of Shareholders held on May 22, 2013, the Company s shareholders voted to amend the Company s Articles of Incorporation to provide authority to issue up to five million additional shares of preferred stock. Subsequent to this amendment of the Company s Articles of Incorporation, the Company filed a shelf registration statement with the Securities and Exchange Commission in June 2013 pursuant to which it may publicly sell securities, including the new preferred stock, from time to time. The new shelf registration statement replaced the Company s prior shelf registration statement.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

9. EARNINGS PER SHARE

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

(in millions, except per share amounts)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Basic and Diluted				
Net income, as reported	**$ 864**	$ 864	**$ 2,685**	$ 2,169
Participating share-based awards allocated income	**(6)**	(6)	**(20)**	(17)
Net income available to common shareholders basic and diluted	**$ 858**	$ 858	**$ 2,665**	$ 2,152
Common Shares				
Basic				
Weighted average shares outstanding	**368.9**	384.0	**374.1**	388.0
Diluted				
Weighted average shares outstanding	**368.9**	384.0	**374.1**	388.0
Weighted average effects of dilutive securities stock options and performance shares	**4.0**	3.9	**4.0**	3.5
Total	**372.9**	387.9	**378.1**	391.5
Net Income per Common Share				
Basic	**$ 2.33**	$ 2.23	**$ 7.12**	$ 5.55
Diluted	**$ 2.30**	$ 2.21	**$ 7.05**	$ 5.50

10. SHARE-BASED INCENTIVE COMPENSATION

The following information relates to fully vested stock option awards at September 30, 2013:

Stock Options	Number		Weighted Average Exercise Price	Weighted Average Contractual Life Remaining		Aggregate Intrinsic Value ($ in millions)
Vested at end of period (1)	**8,470,852**	**$**	**52.85**	**5.7 years**	**$**	**270**
Exercisable at end of period	**5,594,322**	**$**	**47.06**	**4.4 years**	**$**	**211**

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

The total compensation cost for all share-based incentive compensation awards recognized in earnings was $29 million and $26 million for the three months ended September 30, 2013 and 2012, respectively, and $99 million and $92 million for the nine months ended September 30, 2013 and 2012, respectively. The related tax benefits recognized in the consolidated statement of income were $10 million and $9 million for the three months ended September 30, 2013 and 2012, respectively, and $34 million and $32 million for the nine months ended September 30, 2013 and 2012, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at September 30, 2013 was $142 million, which is expected to be recognized over a weighted-average period of 1.8 years. The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at December 31, 2012 was $112 million, which was expected to be recognized over a weighted-average period of 1.7 years.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

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

(for the three months ended September 30, in millions)	Pension Plans 2013	Pension Plans 2012	Postretirement Benefit Plans 2013	Postretirement Benefit Plans 2012
Net Periodic Benefit Cost:				
Service cost	**$ 30**	$ 28	**$**	$
Interest cost on benefit obligation	**33**	34	**3**	3
Expected return on plan assets	**(52)**	(46)		
Amortization of unrecognized:				
Prior service benefit			**(1)**	
Net actuarial loss	**27**	22		
Net benefit expense	**$ 38**	$ 38	**$ 2**	$ 3

(for the nine months ended September 30, in millions)	Pension Plans 2013	Pension Plans 2012	Postretirement Benefit Plans 2013	Postretirement Benefit Plans 2012
Net Periodic Benefit Cost:				
Service cost	**$ 89**	$ 85	**$**	$
Interest cost on benefit obligation	**99**	103	**7**	9
Expected return on plan assets	**(156)**	(140)		(1)
Amortization of unrecognized:				
Prior service benefit			**(2)**	
Net actuarial loss	**80**	67		
Net benefit expense	**$ 112**	$ 115	**$ 5**	$ 8

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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

Asbestos- and Environmental-Related Proceedings

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

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), a wholly-owned subsidiary of the Company, and other insurers (not including The St. Paul Companies, Inc. (SPC), which was acquired by TPC in 2004) 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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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.

In response to these claims, TPC moved to enjoin the Statutory Actions and the Common Law Claims in the federal bankruptcy court that had presided over the bankruptcy of TPC s former policyholder Johns-Manville Corporation on the ground that the suits violated injunctions entered in connection with confirmation of the Johns-Manville bankruptcy (the 1986 Orders). The bankruptcy court issued a temporary restraining order and referred the parties to mediation. In November 2003, the parties reached a settlement of the Statutory and Hawaii Actions, which included 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, which included a payment of up to $90 million by TPC, subject to similar contingencies. Among the contingencies for each of these settlements was that the bankruptcy court issue an order, which must become a final order, clarifying that all of these claims, and similar future asbestos-related claims against TPC, as well as related contribution claims, are barred by 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. Although the District Court substantially affirmed the Clarifying Order, on February 15, 2008, the Second Circuit issued an opinion vacating on jurisdictional grounds the District Court s approval of the Clarifying Order.

On December 12, 2008, the United States Supreme Court granted TPC s Petition for Writ of Certiorari and, on June 18, 2009, the Supreme Court reversed the Second Circuit s February 15, 2008 decision, finding, among other things, that the 1986 Orders are final and therefore may not be collaterally challenged on jurisdictional grounds. The Supreme Court further ruled that the bankruptcy court had jurisdiction to issue the Clarifying Order. However, since the Second Circuit had not ruled on certain additional issues, principally related to procedural matters and the adequacy of notice provided to certain parties, the Supreme Court remanded the case to the Second Circuit for further proceedings on those specific issues.

On March 22, 2010, the Second Circuit issued an opinion in which it found that the notice of the 1986 Orders provided to one remaining objector was insufficient to bar contribution claims by that objector against TPC. TPC s Petition for Rehearing and Rehearing *En Banc* was denied May 25, 2010 and its Petition for Writ of Certiorari and Petition for a Writ of Mandamus were denied by the United States Supreme Court on November 29, 2010.

The plaintiffs in the Statutory and Hawaii actions and the Common Law Claims actions thereafter filed motions in the bankruptcy court to compel TPC to make payment under the settlement agreements, arguing that all conditions precedent to the settlements had been met. On December 16, 2010, the bankruptcy court granted the plaintiffs motions and ruled that TPC was required to fund the settlements. The court entered judgment against TPC on January 20, 2011 in accordance with this ruling and ordered TPC to pay the settlement amounts plus prejudgment interest. The bankruptcy court s judgment was reversed by the district court on March 1, 2012, the district court having found that the conditions to the settlements had not been met in view of the Second Circuit s March 22, 2010 ruling permitting the filing of contribution claims against TPC. The plaintiffs appealed the district court s March 1, 2012 decision to the Second Circuit Court of Appeals. Oral argument before the Second Circuit took place on January 10, 2013, and the parties await the court s decision.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

SPC, which is not covered by the Manville bankruptcy court rulings or the settlements described above, from time to time has been named as a defendant in 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, which have been dismissed following favorable rulings by Ohio trial and appellate courts. From time to time, SPC and/or its subsidiaries have been named in similar individual direct actions in other jurisdictions.

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

Other Proceedings Not Arising Under Insurance Contracts or Reinsurance Agreements

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

Gain Contingencies

On August 17, 2010, in a reinsurance dispute in New York state court captioned *United States Fidelity & Guaranty Company v. American Re-Insurance Company, et al.,* the trial court granted summary judgment for United States Fidelity and Guaranty Company (USF&G), a subsidiary of the Company, and denied summary judgment for American Re-Insurance Company, a subsidiary of Munich Re (American Re), and three other reinsurers. By order dated October 22, 2010, the trial court corrected certain clerical errors and made certain clarifications to the August 17, 2010 order. On October 25, 2010, judgment was entered against American Re and the other three insurers, awarding USF&G $420 million, comprising $251 million ceded under the terms of the disputed reinsurance contract plus interest of 9% amounting to $169 million as of that date. The judgment, including the award of interest, was appealed by the reinsurers to the New York Supreme Court, Appellate Division, First Department. On January 24, 2012, the Appellate Division affirmed the judgment. On January 30, 2012, the reinsurers filed a motion with the Appellate Division seeking permission to appeal its decision to the New York Court of Appeals, and on March 12, 2012, the Appellate Division granted the reinsurers motion. On February 7, 2013, the Court of Appeals issued an opinion that largely affirmed the summary judgment in USF&G s favor, while modifying in part the summary judgment with respect to two discrete issues and remanding the case to the trial court for determination of those issues. The Company believes it has a meritorious position on each of these issues and intends to pursue its claim vigorously. On May 2, 2013, the Court of Appeals denied a motion by reinsurers to reconsider the February 7, 2013 opinion. At September 30, 2013, the claim totaled $487 million, comprising the $251 million of reinsurance recoverable plus interest amounting to $236 million as of that date. Interest will continue to accrue at 9% until the claim is paid. The $251 million of reinsurance recoverable owed to USF&G under the terms of the disputed reinsurance contract has been reported as part of reinsurance recoverables in the Company s consolidated balance sheet. The interest that would be owed as part of any judgment ultimately entered in favor of USF&G is treated for accounting purposes as a gain contingency in accordance with FASB Topic 450, *Contingencies,* and accordingly has not been recognized in the Company s consolidated financial statements.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

In an unrelated action, The Travelers Indemnity Company is one of the Settlement Class plaintiffs and a class member in a class action lawsuit captioned *Safeco Insurance Company of America, et al. v American International Group, Inc. et al.* (U.S. District Court, N.D. Ill.) in which the defendants are alleged to have engaged in the under-reporting of workers compensation premium in connection with a workers compensation reinsurance pool in which several subsidiaries of the Company participate. On July 26, 2011, the court granted preliminary approval of a class settlement pursuant to which the defendants agreed to pay $450 million to the class. On December 21, 2011, the court entered an order granting final approval of the settlement, and on February 28, 2012, the district court issued a written opinion approving the settlement. On March 27, 2012, three parties who objected to the settlement appealed the court s orders approving the settlement to the U.S. Court of Appeals for the Seventh Circuit. On January 11, 2013, all parties, including the three parties who had objected to the settlement, filed a Stipulation of Dismissal indicating that there were no longer any objections to the settlement. On March 25, 2013, the Seventh Circuit dismissed the appeals. On April 16, 2013, the Seventh Circuit issued its mandate returning the case to the district court for administration of the settlement. Prior to receiving payment, the Company accounted for its anticipated allocation from the settlement fund as a gain contingency in accordance with FASB Topic 450, *Contingencies.* On June 26, 2013, the Company received payment of approximately $91 million, comprising 98% of its allocation from the settlement fund. The Company anticipates receiving payment of the remaining 2% (approximately $2 million, less any additional fees and expenses to be paid from the settlement fund), prior to December 31, 2013. The $91 million received by the Company in June 2013 was recorded as a gain and is reported in Other revenues in the consolidated statement of income in the Company s consolidated financial statements.

Other Commitments and Guarantees

Commitments

Investment Commitments The Company has unfunded commitments to private equity limited partnerships and real estate partnerships in which it invests. These commitments totaled $1.48 billion and $1.27 billion at September 30, 2013 and December 31, 2012, respectively.

Guarantees

In the ordinary course of selling businesses to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the businesses 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 18 months following the applicable closing date to the expiration of the relevant statutes of limitations, although, in some cases, there may be other agreed upon term limitations or no term limitations. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. The maximum amount of the Company s contingent obligation for indemnifications related to the sale of businesses that are quantifiable was $474 million at September 30, 2013, of which $9 million was recognized on the balance sheet at that date.

The Company also has contingent obligations for guarantees related to certain investments, third-party loans related to certain investments, certain insurance policy obligations of former insurance subsidiaries, and various other indemnifications. 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. The maximum amount of the Company s obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was $129 million at September 30, 2013, approximately $63 million of which is indemnified by a third party. The maximum amount of the Company s obligation related to the guarantee of certain insurance policy obligations of a former insurance subsidiary was $480 million at September 30, 2013, all of which is indemnified by a third party.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

The following consolidating financial statements of the Company have been prepared pursuant to Rule 3-10 of Regulation S-X. These consolidating financial statements have been prepared from the Company s financial information on the same basis of accounting as the consolidated financial statements. The Travelers Companies, Inc. has fully and unconditionally guaranteed certain debt obligations of TPC, which totaled $700 million at September 30, 2013.

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

In connection with the planned acquisition of The Dominion of Canada General Insurance Company from E-L Financial Corporation Limited (E-L Financial), The Travelers Companies, Inc. (TRV) provided an unconditional guarantee to E-L Financial of a TRV subsidiary s obligation for the full and prompt payment of the purchase price when due and the performance of all agreements, covenants, and obligations under the agreement. See Financial, Professional & International Insurance in note 1 to the Company s consolidated financial statements for further information regarding the transaction.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 2013

(in millions)	TPC	Other Subsidiaries	Travelers (2)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,839	$ 1,827	$	$	$ 5,666
Net investment income	438	217	2		657
Fee income	106	1			107
Net realized investment gains (losses) (1)	3	(25)			(22)
Other revenues	38	6			44
Total revenues	4,424	2,026	2		6,452
Claims and expenses					
Claims and claim adjustment expenses	2,214	1,083			3,297
Amortization of deferred acquisition costs	640	313			953
General and administrative expenses	646	286	2		934
Interest expense	12		79		91
Total claims and expenses	3,512	1,682	81		5,275
Income (loss) before income taxes	912	344	(79)		1,177
Income tax expense (benefit)	248	93	(28)		313
Net income of subsidiaries			915	(915)	
Net income	$ 664	$ 251	$ 864	$ (915)	$ 864

(1) Total other-than-temporary impairment (OTTI) for the three months ended September 30, 2013, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	Travelers (2)	Eliminations	Consolidated
Total OTTI gains (losses)	$ 1	$ (1)	$	$	$
OTTI losses recognized in net realized investment gains	$ (2)	$ (1)	$	$	$ (3)
OTTI gains recognized in OCI	$ 3	$	$	$	$ 3

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended September 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (2)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,845	$ 1,821	$	$	$ 5,666
Net investment income	443	277	2		722
Fee income	92				92
Net realized investment gains (losses) (1)	2	(4)			(2)
Other revenues	21	13			34
Total revenues	4,403	2,107	2		6,512
Claims and expenses					
Claims and claim adjustment expenses	2,292	1,067			3,359
Amortization of deferred acquisition costs	660	326			986
General and administrative expenses	622	284	(2)		904
Interest expense	19		74		93
Total claims and expenses	3,593	1,677	72		5,342
Income (loss) before income taxes	810	430	(70)		1,170
Income tax expense (benefit)	212	120	(26)		306
Net income of subsidiaries			908	(908)	
Net income	$ 598	$ 310	$ 864	$ (908)	$ 864

(1) Total other-than-temporary impairment (OTTI) for the three months ended September 30, 2012, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	Travelers (2)	Eliminations	Consolidated
Total OTTI gains	$ 15	$ 2	$	$	$ 17
OTTI losses recognized in net realized investment gains (losses)	$ (2)	$ (1)	$	$	$ (3)
OTTI gains recognized in OCI	$ 17	$ 3	$	$	$ 20

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2013

(in millions)	TPC	Other Subsidiaries	Travelers (2)	Eliminations	Consolidated
Revenues					
Premiums	$ 11,384	$ 5,402	$	$	$ 16,786
Net investment income	1,350	659	5		2,014
Fee income	284	2			286
Net realized investment gains (1)	120	34	1		155
Other revenues	170	43			213
Total revenues	13,308	6,140	6		19,454
Claims and expenses					
Claims and claim adjustment expenses	6,684	3,296			9,980
Amortization of deferred acquisition costs	1,912	939			2,851
General and administrative expenses	1,915	861	4		2,780
Interest expense	41		228		269
Total claims and expenses	10,552	5,096	232		15,880
Income (loss) before income taxes	2,756	1,044	(226)		3,574
Income tax expense (benefit)	700	269	(80)		889
Net income of subsidiaries			2,831	(2,831)	
Net income	$ 2,056	$ 775	$ 2,685	$ (2,831)	$ 2,685

(1) Total other-than-temporary impairment (OTTI) for the nine months ended September 30, 2013, and the amounts comprising total OTTI that were recognized in net realized investment gains and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	Travelers (2)	Eliminations	Consolidated
Total OTTI gains (losses)	$ (3)	$ 2	$	$	$ (1)
OTTI losses recognized in net realized investment gains	$ (7)	$ (3)	$	$	$ (10)
OTTI gains recognized in OCI	$ 4	$ 5	$	$	$ 9

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the nine months ended September 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (2)	Eliminations	Consolidated
Revenues					
Premiums	$ 11,333	$ 5,385	$	$	$ 16,718
Net investment income	1,444	750	6		2,200
Fee income	232	1			233
Net realized investment gains (losses) (1)	17	(5)			12
Other revenues	70	30			100
Total revenues	13,096	6,161	6		19,263
Claims and expenses					
Claims and claim adjustment expenses	7,113	3,396			10,509
Amortization of deferred acquisition costs	1,953	980			2,933
General and administrative expenses	1,829	850	2		2,681
Interest expense	55		230		285
Total claims and expenses	10,950	5,226	232		16,408
Income (loss) before income taxes	2,146	935	(226)		2,855
Income tax expense (benefit)	536	231	(81)		686
Net income of subsidiaries			2,314	(2,314)	
Net income	$ 1,610	$ 704	$ 2,169	$ (2,314)	$ 2,169

(1) Total other-than-temporary impairment (OTTI) for the nine months ended September 30, 2012, and the amounts comprising total OTTI that were recognized in net realized investment gains (losses) and in other comprehensive income (OCI) were as follows:

(in millions)	TPC	Other Subsidiaries	Travelers (2)	Eliminations	Consolidated
Total OTTI gains	$ 15	$ 13	$	$	$ 28
OTTI losses recognized in net realized investment gains (losses)	$ (8)	$ (3)	$	$	$ (11)
OTTI gains recognized in OCI	$ 23	$ 16	$	$	$ 39

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended September 30, 2013

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net income	$ 664	$ 251	$ 864	$ (915)	$ 864
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(138)	(71)	5		(204)
Having credit losses recognized in the consolidated statement of income	(1)	(1)			(2)
Net changes in benefit plan assets and obligations		(1)	25		24
Net changes in unrealized foreign currency translation	26	86			112
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(113)	13	30		(70)
Income tax expense (benefit)	(46)	(20)	11		(55)
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(67)	33	19		(15)
Other comprehensive loss of subsidiaries			(34)	34	
Other comprehensive income (loss)	(67)	33	(15)	34	(15)
Comprehensive income	$ 597	$ 284	$ 849	$ (881)	$ 849

(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

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended September 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net income	$ 598	$ 310	$ 864	$ (908)	$ 864
Other comprehensive income:					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	338	127	5		470
Having credit losses recognized in the consolidated statement of income	28	13			41
Net changes in benefit plan assets and obligations	1		21		22
Net changes in unrealized foreign currency translation	13	52			65
Other comprehensive income before income taxes and other comprehensive income of subsidiaries	380	192	26		598
Income tax expense	129	54	9		192
Other comprehensive income net of taxes, before other comprehensive income of subsidiaries	251	138	17		406
Other comprehensive income of subsidiaries			389	(389)	
Other comprehensive income	251	138	406	(389)	406
Comprehensive income	$ 849	$ 448	$ 1,270	$ (1,297)	$ 1,270

(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

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the nine months ended September 30, 2013

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net income	$ 2,056	$ 775	$ 2,685	$ (2,831)	$ 2,685
Other comprehensive income (loss):					
Changes in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	(1,735)	(647)	12		(2,370)
Having credit losses recognized in the consolidated statement of income	4	(2)			2
Net changes in benefit plan assets and obligations	1	2	75		78
Net changes in unrealized foreign currency translation	(35)	(22)			(57)
Other comprehensive income (loss) before income taxes and other comprehensive loss of subsidiaries	(1,765)	(669)	87		(2,347)
Income tax expense (benefit)	(616)	(231)	31		(816)
Other comprehensive income (loss), net of taxes, before other comprehensive loss of subsidiaries	(1,149)	(438)	56		(1,531)
Other comprehensive loss of subsidiaries			(1,587)	1,587	
Other comprehensive loss	(1,149)	(438)	(1,531)	1,587	(1,531)
Comprehensive income	$ 907	$ 337	$ 1,154	$ (1,244)	$ 1,154

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