TRAVELERS COMPANIES, INC.
Form 10-Q
July 19, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to

Commission file number: 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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

485 Lexington Avenue

New York, NY 10017

(Address of principal executive offices) (Zip Code)

(917) 778-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of the Registrant s Common Stock, without par value, outstanding at July 16, 2012 was 385,358,110.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended June 30, 2012

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PART 1 FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (LOSS) (Unaudited)

(in millions, except per share amounts)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues				
Premiums	**$ 5,529**	$ 5,503	**$ 11,052**	$ 10,874
Net investment income	**738**	758	**1,478**	1,537
Fee income	**59**	74	**141**	148
Net realized investment gains	**4**	19	**14**	39
Other revenues	**29**	34	**66**	68
Total revenues	**6,359**	6,388	**12,751**	12,666
Claims and expenses				
Claims and claim adjustment expenses	**3,786**	5,141	**7,150**	8,523
Amortization of deferred acquisition costs	**976**	970	**1,947**	1,918
General and administrative expenses	**893**	907	**1,777**	1,790
Interest expense	**96**	97	**192**	193
Total claims and expenses	**5,751**	7,115	**11,066**	12,424
Income (loss) before income taxes	**608**	(727)	**1,685**	242
Income tax expense (benefit)	**109**	(363)	**380**	(233)
Net income (loss)	**$ 499**	$ (364)	**$ 1,305**	$ 475
Net income (loss) per share				
Basic	**$ 1.27**	$ (0.88)	**$ 3.32**	$ 1.11
Diluted	**$ 1.26**	$ (0.88)	**$ 3.29**	$ 1.10
Weighted average number of common shares outstanding				
Basic	**388.0**	418.6	**390.0**	423.3
Diluted	**391.6**	418.6	**393.5**	429.1

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011		Six Months Ended June 30, 2012		Six Months Ended June 30, 2011
Net Realized Investment Gains							
Other-than-temporary impairment losses:							
Total gains	**$**	**11**	$	5	**$**	**11**	$	7
Non-credit component of impairments recognized in accumulated other comprehensive income		**(15)**		(9)		**(19)**		(15)
Other-than-temporary impairment losses		**(4)**		(4)		**(8)**		(8)
Other net realized investment gains		**8**		23		**22**		47
Net realized investment gains	**$**	**4**	$	19	**$**	**14**	$	39

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(in millions)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income (loss)	**$ 499**	$ (364)	**$ 1,305**	$ 475
Other comprehensive income:				
Change in net unrealized gains on investment securities:				
Having no credit losses recognized in the consolidated statement of income	**216**	645	**139**	539
Having credit losses recognized in the consolidated statement of income	**5**	(10)	**30**	18
Net changes in benefit plan assets and obligations	**22**	19	**42**	37
Net changes in unrealized foreign currency translation and other changes	**(86)**	16	**(22)**	86
Other comprehensive income before income taxes	**157**	670	**189**	680
Income tax expense	**66**	231	**64**	224
Other comprehensive income, net of taxes	**91**	439	**125**	456
Comprehensive income	$ **590**	$ 75	$ **1,430**	$ 931

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	June 30, 2012	December 31, 2011
Assets		
Fixed maturities, available for sale, at fair value (amortized cost $60,313 and $59,994)	**$ 64,705**	$ 64,232
Equity securities, available for sale, at fair value (cost $436 and $414)	**595**	559
Real estate investments	**899**	865
Short-term securities	**3,275**	3,594
Other investments	**3,470**	3,451
Total investments	**72,944**	72,701
Cash	**230**	214
Investment income accrued	**751**	768
Premiums receivable	**6,197**	5,730
Reinsurance recoverables	**10,404**	11,155
Ceded unearned premiums	**874**	828
Deferred acquisition costs	**1,839**	1,786
Deferred taxes		7
Contractholder receivables	**4,903**	5,186
Goodwill	**3,365**	3,365
Other intangible assets	**405**	433
Other assets	**2,418**	2,402
Total assets	**$ 104,330**	$ 104,575
Liabilities		
Claims and claim adjustment expense reserves	**$ 50,793**	$ 51,392
Unearned premium reserves	**11,449**	11,102
Contractholder payables	**4,903**	5,186
Payables for reinsurance premiums	**413**	389
Deferred taxes	**194**	
Debt	**6,349**	6,605
Other liabilities	**5,180**	5,424
Total liabilities	**79,281**	80,098
Shareholders equity		
Common stock (1,750.0 shares authorized; 386.0 and 392.8 shares issued and outstanding)	**20,970**	20,732
Retained earnings	**20,541**	19,579
Accumulated other comprehensive income	**2,130**	2,005
Treasury stock, at cost (361.4 and 349.0 shares)	**(18,592)**	(17,839)
Total shareholders equity	**25,049**	24,477
Total liabilities and shareholders equity	**$ 104,330**	$ 104,575

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the six months ended June 30,	2012	2011
Convertible preferred stock savings plan		
Balance, beginning of year	$	$ 68
Redemptions during period		(5)
Conversion to common stock		(63)
Balance, end of period		
Common stock		
Balance, beginning of year	**20,732**	20,162
Employee share-based compensation	**149**	263
Common shares issued conversion of preferred stock		93
Compensation amortization under share-based plans and other changes	**89**	89
Balance, end of period	**20,970**	20,607
Retained earnings		
Balance, beginning of year	**19,579**	18,847
Net income	**1,305**	475
Dividends	**(343)**	(331)
Premium on preferred stock converted to common stock		(30)
Other		5
Balance, end of period	**20,541**	18,966
Accumulated other comprehensive income, net of tax		
Balance, beginning of year	**2,005**	1,255
Other comprehensive income	**125**	456
Balance, end of period	**2,130**	1,711
Treasury stock (at cost)		
Balance, beginning of year	**(17,839)**	(14,857)
Treasury shares acquired share repurchase authorization	**(700)**	(1,337)
Net shares acquired related to employee share-based compensation plans	**(53)**	(82)
Balance, end of period	**(18,592)**	(16,276)
Total common shareholders equity	**25,049**	25,008
Total shareholders equity	**$ 25,049**	$ 25,008
Common shares outstanding		
Balance, beginning of year	**392.8**	434.6
Treasury shares acquired share repurchase authorization	**(11.6)**	(22.8)
Common shares issued conversion of preferred stock		1.5
Net shares issued under employee share-based compensation plans	**4.8**	6.2

Balance, end of period	**386.0**	419.5

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in millions)

For the six months ended June 30,	2012	2011
Cash flows from operating activities		
Net income	**$ 1,305**	$ 475
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	**(14)**	(39)
Depreciation and amortization	**412**	405
Deferred federal income tax expense	**125**	137
Amortization of deferred acquisition costs	**1,947**	1,918
Equity in income from other investments	**(228)**	(231)
Premiums receivable	**(468)**	(542)
Reinsurance recoverables	**752**	225
Deferred acquisition costs	**(2,000)**	(1,973)
Claims and claim adjustment expense reserves	**(599)**	889
Unearned premium reserves	**346**	395
Other	**(313)**	(758)
Net cash provided by operating activities	**1,265**	901
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**4,167**	3,234
Proceeds from sales of investments:		
Fixed maturities	**542**	736
Equity securities	**22**	47
Real estate investments	**3**	
Other investments	**386**	285
Purchases of investments:		
Fixed maturities	**(5,200)**	(3,547)
Equity securities	**(33)**	(103)
Real estate investments	**(58)**	(35)
Other investments	**(221)**	(629)
Net sales of short-term securities	**367**	597
Securities transactions in course of settlement	**77**	213
Other	**(133)**	(143)
Net cash provided by (used in) investing activities	**(81)**	655
Cash flows from financing activities		
Payment of debt	**(258)**	(8)
Dividends paid to shareholders	**(341)**	(329)
Issuance of common stock employee share options	**170**	245
Treasury stock acquired share repurchase authorization	**(707)**	(1,360)
Treasury stock acquired net employee share-based compensation	**(52)**	(46)
Excess tax benefits from share-based payment arrangements	**19**	11
Net cash used in financing activities	**(1,169)**	(1,487)
Effect of exchange rate changes on cash	**1**	4

Net increase in cash		**16**		73
Cash at beginning of year		**214**		200
Cash at end of period	**$**	**230**	$	273
Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**296**	$	291
Interest paid	**$**	**191**	$	191

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company s management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. Certain reclassifications have been made to the 2011 consolidated financial statements and notes to conform to the 2012 presentation. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s 2011 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

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board (FASB) issued updated guidance to increase the prominence of items reported in other comprehensive income by eliminating the option of presenting components of comprehensive income as part of the statement of changes in shareholders equity. The updated guidance requires that all nonowner changes in shareholders equity be presented either as a single continuous statement of comprehensive income or in two separate but consecutive statements.

The updated guidance was effective for the quarter ended March 31, 2012 and was applied retrospectively. The Company s adoption of this guidance resulted in a change in the presentation of the Company s consolidated financial statements but did not have any effect on the Company s results of operations, financial position or liquidity.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

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

The updated guidance was effective for the quarter ended March 31, 2012. The adoption of this guidance did not have any effect on the Company s results of operations, financial position or liquidity.

Transfers and Servicing

In April 2011, the FASB issued updated guidance related to the accounting for repurchase agreements and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The updated guidance eliminates the criteria to assess whether a transferor is required to have the ability to repurchase or redeem the financial assets in order to demonstrate effective control over the transferred asset. Transferors that maintain effective control over a transferred asset are required to account for the transaction as a secured borrowing rather than a sale.

The updated guidance was effective for the quarter ended March 31, 2012. The updated guidance applies to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of this guidance did not have any 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

Intangibles - Goodwill and Other

In September 2011, the FASB issued updated guidance that modifies the manner in which the two-step impairment test of goodwill is applied. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact a reporting unit s fair value and lead to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If an entity determines that it is more likely than not, it must perform an impairment test.

The first step of the impairment test involves comparing the estimated fair value of a reporting unit to its carrying value, including goodwill. If the carrying value of a reporting unit exceeds the estimated fair value, a second step must be performed to measure the amount of goodwill impairment, if any. In the second step, the implied fair value of the reporting unit s goodwill is determined in the same manner as goodwill is measured in a business combination (i.e., by measuring the fair value of the reporting unit s assets, liabilities and unrecognized intangible assets and determining the remaining amount ascribed to goodwill) and comparing the amount of the implied goodwill to the carrying amount of the goodwill. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

The updated guidance was effective for the quarter ended March 31, 2012. The adoption of this guidance did not have any effect on the Company s results of operations, financial position or liquidity.

Nature of Operations

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

Business Insurance

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

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

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.

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 (loss) and total assets by reportable business segments:

(for the three months ended June 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2012				
Premiums	**$ 2,860**	**$ 766**	**$ 1,903**	**$ 5,529**
Net investment income	**536**	**99**	**103**	**738**
Fee income	**58**	**1**		**59**
Other revenues	**8**	**5**	**16**	**29**
Total operating revenues (1)	**$ 3,462**	**$ 871**	**$ 2,022**	**$ 6,355**
Operating income (1)	**$ 362**	**$ 182**	**$ 17**	**$ 561**
2011				
Premiums	$ 2,802	$ 810	$ 1,891	$ 5,503
Net investment income	541	105	112	758
Fee income	74			74
Other revenues	10	6	18	34
Total operating revenues (1)	$ 3,427	$ 921	$ 2,021	$ 6,369
Operating income (loss) (1)	$ 11	$ 164	$ (471)	$ (296)

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

(for the six months ended June 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
2012				
Premiums	**$ 5,736**	**$ 1,503**	**$ 3,813**	**$ 11,052**
Net investment income	**1,068**	**203**	**207**	**1,478**

Fee income		**140**		**1**				**141**
Other revenues		**22**		**13**		**35**		**70**
Total operating revenues (1)	**$**	**6,966**	**$**	**1,720**	**$**	**4,055**	**$**	**12,741**
Operating income (1)	**$**	**974**	**$**	**331**	**$**	**125**	**$**	**1,430**
2011								
Premiums	$	5,547	$	1,583	$	3,744	$	10,874
Net investment income		1,097		211		229		1,537
Fee income		148						148
Other revenues		19		13		36		68
Total operating revenues (1)	$	6,811	$	1,807	$	4,009	$	12,627
Operating income (loss) (1)	$	615	$	284	$	(301)	$	598

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2012**	**2011**	**2012**	**2011**
Revenue reconciliation				
Earned premiums				
Business Insurance:				
Workers compensation	**$ 754**	$ 712	**$ 1,537**	$ 1,392
Commercial automobile	**488**	480	**974**	953
Property	**401**	401	**793**	802
General liability	**437**	429	**869**	857
Commercial multi-peril	**773**	778	**1,548**	1,540
Other	**7**	2	**15**	3
Total Business Insurance	**2,860**	2,802	**5,736**	5,547
Financial, Professional & International Insurance:				
Fidelity and surety	**236**	249	**459**	483
General liability	**210**	211	**417**	415
International	**278**	311	**544**	609
Other	**42**	39	**83**	76
Total Financial, Professional & International Insurance	**766**	810	**1,503**	1,583
Personal Insurance:				
Automobile	**918**	931	**1,846**	1,846
Homeowners and other	**985**	960	**1,967**	1,898
Total Personal Insurance	**1,903**	1,891	**3,813**	3,744
Total earned premiums	**5,529**	5,503	**11,052**	10,874
Net investment income	**738**	758	**1,478**	1,537
Fee income	**59**	74	**141**	148
Other revenues	**29**	34	**70**	68
Total operating revenues for reportable segments	**6,355**	6,369	**12,741**	12,627
Other revenues			**(4)**	
Net realized investment gains	**4**	19	**14**	39

Total consolidated revenues	**$**	**6,359**	$	6,388	**$**	**12,751**	$	12,666
Income reconciliation, net of tax								
Total operating income (loss) for reportable segments	**$**	**561**	$	(296)	**$**	**1,430**	$	598
Interest Expense and Other (1)		**(66)**		(81)		**(134)**		(149)
Total operating income (loss)		**495**		(377)		**1,296**		449
Net realized investment gains		**4**		13		**9**		26
Total consolidated net income (loss)	**$**	**499**	$	(364)	**$**	**1,305**	$	475

(1) The primary component of Interest Expense and Other is after-tax interest expense of $63 million in each of the three months ended June 30, 2012 and 2011, and $125 million in each of the six months ended June 30, 2012 and 2011.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)	June 30, 2012	December 31, 2011
Asset reconciliation:		
Business Insurance	$ **76,968**	$ 76,909
Financial, Professional & International Insurance	**13,491**	13,355
Personal Insurance	**13,527**	13,614
Total assets for reportable segments	**103,986**	103,878
Other assets (1)	**344**	697
Total consolidated assets	$ **104,330**	$ 104,575

(1) The primary components of other assets at both dates were other intangible assets. The December 31, 2011 total also included deferred taxes.

3. INVESTMENTS

Fixed Maturities

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

(at June 30, 2012, 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	$ **2,072**	$ **85**	$	$ **2,157**
Obligations of states, municipalities and political subdivisions:				
Pre-refunded	**7,720**	**585**		**8,305**
All other	**28,430**	**2,231**	**15**	**30,646**

Total obligations of states, municipalities and political subdivisions		**36,150**		**2,816**		**15**		**38,951**
Debt securities issued by foreign governments		**2,250**		**85**		**1**		**2,334**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		**3,075**		**250**		**7**		**3,318**
All other corporate bonds		**16,740**		**1,207**		**33**		**17,914**
Redeemable preferred stock		**26**		**5**				**31**
Total	**$**	**60,313**	**$**	**4,448**	**$**	**56**	**$**	**64,705**

(at December 31, 2011, in millions)		**Amortized Cost**		**Gross Unrealized Gains**		**Losses**		**Fair Value**
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$	2,396	$	101	$		$	2,497
Obligations of states, municipalities and political subdivisions:								
Pre-refunded		6,820		513		1		7,332
All other		29,391		2,303		4		31,690
Total obligations of states, municipalities and political subdivisions		36,211		2,816		5		39,022
Debt securities issued by foreign governments		2,228		91		1		2,318
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		3,288		249		22		3,515
All other corporate bonds		15,845		1,066		61		16,850
Redeemable preferred stock		26		4				30
Total	$	59,994	$	4,327	$	89	$	64,232

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Pre-refunded bonds of $8.31 billion and $7.33 billion at June 30, 2012 and December 31, 2011, respectively, were bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest.

Equity Securities

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

		Gross Unrealized		Fair
(at June 30, 2012, in millions)	**Cost**	**Gains**	**Losses**	**Value**
Common stock	**$ 340**	**$ 130**	**$ 3**	**$ 467**
Non-redeemable preferred stock	**96**	**33**	**1**	**128**
Total	**$ 436**	**$ 163**	**$ 4**	**$ 595**

		Gross Unrealized		Fair
(at December 31, 2011, in millions)	**Cost**	**Gains**	**Losses**	**Value**
Common stock	$ 311	$ 120	$ 3	$ 428
Non-redeemable preferred stock	103	29	1	131
Total	$ 414	$ 149	$ 4	$ 559

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at June 30, 2012 and December 31, 2011, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

	Less than 12 months		12 months or longer		Total	
(at June 30, 2012, in millions)	**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	$ 919	$	$	$	$ 919	$
Obligations of states, municipalities and political subdivisions	1,286	12	30	3	1,316	15
Debt securities issued by foreign governments	151	1			151	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	70	1	145	6	215	7
All other corporate bonds	803	16	137	17	940	33
Total fixed maturities	3,229	30	312	26	3,541	56
Equity securities						
Common stock	56	2	4	1	60	3
Non-redeemable preferred stock	34	1	5		39	1
Total equity securities	90	3	9	1	99	4
Total	$ 3,319	$ 33	$ 321	$ 27	$ 3,640	$ 60

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at December 31, 2011, 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	$ 356	$	$	$	$ 356	$
Obligations of states, municipalities and political subdivisions	27		191	5	218	5
Debt securities issued by foreign governments	96	1	2		98	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	362	12	155	10	517	22
All other corporate bonds	1,295	42	105	19	1,400	61
Total fixed maturities	2,136	55	453	34	2,589	89
Equity securities						
Common stock	64	3			64	3
Non-redeemable preferred stock	37	1	7		44	1
Total equity securities	101	4	7		108	4
Total	$ 2,237	$ 59	$ 460	$ 34	$ 2,697	$ 93

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 June 30, 2012, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
(in millions)	3 Months or Less	Greater Than 3 Months, 6 Months or Less	Greater Than 6 Months, 12 Months or Less	Greater Than 12 Months	Total
Fixed maturities					
Mortgage-backed securities	**$**	**$**	**$**	**$**	**$**
Other	**2**			**9**	**11**
Total fixed maturities	**2**			**9**	**11**

Equity securities									
Total	**$**	**2**	**$**	**$**		**$**	**9**	**$**	**11**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Impairment Charges

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

(in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
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**	2	**3**	4
All other corporate bonds	**1**	1	**3**	3
Redeemable preferred stock				
Total fixed maturities	**3**	3	**6**	7
Equity securities				
Common stock		1		1
Non-redeemable preferred stock				
Total equity securities		1		1
Other investments	**1**		**2**	
Total	**$ 4**	$ 4	**$ 8**	$ 8

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 (loss) 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

	2012					
(for the three months ended June 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	**$ 59**	**$**	**$ 2**	**$**	**$**	**$ 61**
All other corporate bonds	**97**		**1**		**1**	**99**
Total fixed maturities	**$ 156**	**$**	**$ 3**	**$**	**$ 1**	**$ 160**
(for the six months ended June 30, in millions)						
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**$ 58**	**$**	**$ 3**	**$**	**$**	**$ 61**
All other corporate bonds	**94**		**3**		**2**	**99**
Total fixed maturities	**$ 152**	**$**	**$ 6**	**$**	**$ 2**	**$ 160**

	2011					
(for the three months ended June 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	$ 49	$	$ 2	$	$	$ 51
All other corporate bonds	90		1		1	92

Total fixed maturities	$ 139	$	$ 3	$	$ 1	$ 143

(for the six months ended June 30, in millions)						
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 47	$	$ 4	$	$	$ 51
All other corporate bonds	88	1	2	(1)	2	92
Total fixed maturities	$ 135	$ 1	$ 6	$ (1)	$ 2	$ 143

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS

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

Fixed Maturities

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

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

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

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

The Company 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 and $88 million at June 30, 2012 and December 31, 2011, respectively. Additionally, the Company holds a small amount of other fixed maturity investments that have characteristics that make them unsuitable for matrix pricing. For these fixed maturities, the Company obtains a quote from a broker (primarily the market maker). The fair value of the fixed maturities for which the Company received a broker quote was $151 million and $162 million at June 30, 2012 and December 31, 2011, 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. Infrequently, current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company. In these instances, the Company receives an estimate of fair value from the pricing service that provides fair value estimates for the Company s fixed maturities. The service utilizes some of the same methodologies to price the non-redeemable preferred stocks as it does for the fixed maturities. The Company includes the fair value estimate for these non-redeemable preferred stocks in the amount disclosed in Level 2.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Other Investments

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 $42 million fair value of these investments at both June 30, 2012 and December 31, 2011 was disclosed in Level 1. At June 30, 2012 and December 31, 2011, the Company held investments in non-public common and preferred equity securities, with fair value estimates of $44 million at both dates 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 June 30, 2012 and December 31, 2011 in the amount disclosed in Level 3.

Derivatives

At both June 30, 2012 and December 31, 2011, the Company held $22 million 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 June 30, 2012 and December 31, 2011. An investment transferred between levels during a period is transferred at its fair value as of the beginning of that period.

(at June 30, 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	$ 2,157	$ 2,137	$ 20	$

Obligations of states, municipalities and political subdivisions	**38,951**		**38,922**	**29**
Debt securities issued by foreign governments	**2,334**		**2,334**	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**3,318**		**3,313**	**5**
All other corporate bonds	**17,914**	**10**	**17,684**	**220**
Redeemable preferred stock	**31**	**30**	**1**	
Total fixed maturities	**64,705**	**2,177**	**62,274**	**254**
Equity securities				
Common stock	**467**	**467**		
Non-redeemable preferred stock	**128**	**94**	**34**	
Total equity securities	**595**	**561**	**34**	
Other investments	**86**	**42**		**44**
Total	**$ 65,386**	**$ 2,780**	**$ 62,308**	**$ 298**

The Company did not have any transfers between Levels 1 and 2 during the six months ended June 30, 2012.

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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, 2011, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. government and government agencies and authorities	$ 2,497	$ 2,465	$ 32	$
Obligations of states, municipalities and political subdivisions	39,022		39,002	20
Debt securities issued by foreign governments	2,318		2,318	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	3,515		3,514	1
All other corporate bonds	16,850		16,621	229
Redeemable preferred stock	30	29	1	
Total fixed maturities	64,232	2,494	61,488	250
Equity securities				
Common stock	428	428		
Non-redeemable preferred stock	131	96	35	
Total equity securities	559	524	35	
Other investments	86	42		44
Total	$ 64,877	$ 3,060	$ 61,523	$ 294

The Company did not have any material transfers between Levels 1 and 2 during the year ended December 31, 2011.

The following tables present the changes in the Level 3 fair value category during the three months and six months ended June 30, 2012 and the twelve months ended December 31, 2011.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Three Months Ended June 30, 2012 (in millions)	Fixed Maturities	Other Investments	Total
Balance at March 31, 2012	$ 250	$ 44	$ 294
Total realized and unrealized investment gains (losses):			
Reported in realized investment gains (losses) (1)	1		1
Reported in increases (decreases) in other comprehensive income			
Purchases, sales and settlements/maturities:			
Purchases	33		33
Sales			
Settlements/maturities	(25)		(25)
Gross transfers into Level 3	6		6
Gross transfers out of Level 3	(11)		(11)
Balance at June 30, 2012	$ 254	$ 44	$ 298
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income (loss) 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.

Six Months Ended June 30, 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 realized investment gains (losses) (1)	2	(1)	1
Reported in increases (decreases) in other comprehensive income	4	1	5
Purchases, sales and settlements/maturities:			
Purchases	50		50
Sales			
Settlements/maturities	(45)		(45)
Gross transfers into Level 3	6		6
Gross transfers out of Level 3	(13)		(13)
Balance at June 30, 2012	$ 254	$ 44	$ 298

Amount of total realized investment gains (losses) for the period included in the consolidated statement of income (loss) 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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Twelve Months Ended December 31, 2011 (in millions)	**Fixed Maturities**	**Other Investments**	**Total**
Balance at December 31, 2010	$ 230	$ 57	$ 287
Total realized and unrealized investment gains (losses):			
Reported in realized investment gains (losses) (1)	1	38	39
Reported in increases (decreases) in other comprehensive income		(9)	(9)
Purchases, sales and settlements/maturities:			
Purchases	154	5	159
Sales	(15)	(47)	(62)
Settlements/maturities	(43)		(43)
Gross transfers into Level 3	19		19
Gross transfers out of Level 3 (2)	(96)		(96)
Balance at December 31, 2011	$ 250	$ 44	$ 294
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.

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

The Company had no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the six months ended June 30, 2012 or twelve months ended December 31, 2011.

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 June 30, 2012 and December 31, 2011, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis.

(at June 30, 2012, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	$ 3,275	$ 3,275	$ 1,464	$ 1,728	$ 83
Financial liabilities:					
Debt	$ 6,249	$ 7,608	$	$ 7,266	$ 342
Commercial paper	100	100		100	

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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, 2011, in millions)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Short-term securities	$ 3,594	$ 3,594	$ 2,472	$ 1,029	$ 93
Financial liabilities:					
Debt	$ 6,505	$ 7,609	$	$ 7,057	$ 552
Commercial paper	100	100		100	

Included in Level 1 short-term securities at June 30, 2012 and December 31, 2011 were amounts held in liquidity investment pools. The Company utilized a pricing service to estimate fair value for approximately 96% and 94% of short-term securities at June 30, 2012 and December 31, 2011, 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 approximately 96% and 93% of its debt, including commercial paper, at June 30, 2012 and December 31, 2011, respectively. 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 at Level 2 in the hierarchy. For the small amount of the Company s debt securities for which a pricing service is not used, the Company utilizes pricing estimates from a nationally recognized broker/dealer to estimate fair value. If estimates of fair value are unavailable from the pricing service or the broker/dealer, the Company produces an estimate of fair value based on internally developed valuation techniques which are based on a discounted cash flow methodology and incorporates all available relevant observable market inputs. Estimates of fair value developed internally and from broker quotes are disclosed in Level 3 of the hierarchy.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company s goodwill by segment at June 30, 2012 and December 31, 2011:

(in millions)		June 30, 2012		December 31, 2011
Business Insurance	**$**	**2,168**	$	2,168
Financial, Professional & International Insurance		**557**		557
Personal Insurance		**613**		613
Other		**27**		27
Total	**$**	**3,365**	$	3,365

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 June 30, 2012 and December 31, 2011:

(at June 30, 2012, in millions)		Gross Carrying Amount		Accumulated Amortization		Net
Intangibles subject to amortization						
Customer-related (1)	**$**	**455**	**$**	**368**	**$**	**87**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (2)		**191**		**89**		**102**
Total intangible assets subject to amortization		**646**		**457**		**189**
Intangible assets not subject to amortization		**216**				**216**
Total other intangible assets	**$**	**862**	**$**	**457**	**$**	**405**

(at December 31, 2011, in millions)		Gross Carrying Amount		Accumulated Amortization		Net
Intangibles subject to amortization						
Customer-related	$	935	$	830	$	105
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (2)		191		79		112
Total intangible assets subject to amortization		1,126		909		217
Intangible assets not subject to amortization		216				216
Total other intangible assets	$	1,342	$	909	$	433

(1) Certain intangible assets related to renewal rights became fully amortized during the first quarter of 2012.

(2) 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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Customer-related	**$ 7**	$ 11	**$ 18**	$ 25
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**5**	6	**10**	12
Total amortization expense	**$ 12**	$ 17	**$ 28**	$ 37

Intangible asset amortization expense is estimated to be $24 million for the remainder of 2012, $45 million in 2013, $43 million in 2014, $23 million in 2015 and $9 million in 2016.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

6. OTHER COMPREHENSIVE INCOME

The following tables present the pretax components of the Company s other comprehensive income, and the related income tax expense (benefit) for each component, for the three months and six months ended June 30, 2012 and 2011.

(for the three months ended June 30, in millions)	Pretax 2012	Pretax 2011	Tax Expense (Benefit) 2012	Tax Expense (Benefit) 2011	Net of Tax 2012	Net of Tax 2011
Other comprehensive income:						
Change in net unrealized gains on investment securities:						
Having no credit losses recognized in the consolidated statement of income	**$ 216**	$ 645	**$ 77**	$ 224	**$ 139**	$ 421
Having credit losses recognized in the consolidated statement of income	**5**	(10)	**1**	(4)	**4**	(6)
Net changes in benefit plan assets and obligations	**22**	19	**8**	7	**14**	12
Net changes in unrealized foreign currency translation and other changes	**(86)**	16	**(20)**	4	**(66)**	12
Other comprehensive income	**$ 157**	$ 670	**$ 66**	$ 231	**$ 91**	$ 439

(for the six months ended June 30, in millions)	Pretax 2012	Pretax 2011	Tax Expense (Benefit) 2012	Tax Expense (Benefit) 2011	Net of Tax 2012	Net of Tax 2011
Other comprehensive income:						
Change in net unrealized gains on investment securities:						
Having no credit losses recognized in the consolidated statement of income	**$ 139**	$ 539	**$ 50**	$ 189	**$ 89**	$ 350
Having credit losses recognized in the consolidated statement of income	**30**	18	**10**	6	**20**	12
Net changes in benefit plan assets and obligations	**42**	37	**15**	13	**27**	24
Net changes in unrealized foreign currency translation and other changes	**(22)**	86	**(11)**	16	**(11)**	70
Other comprehensive income	**$ 189**	$ 680	**$ 64**	$ 224	**$ 125**	$ 456

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

7. 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, common share price, catastrophe losses, 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), market conditions and other factors. During the three months and six months ended June 30, 2012, the Company repurchased 5.6 million and 11.6 million shares, respectively, under its share repurchase authorization, for a total cost of approximately $350 million and $700 million, respectively. The average cost per share repurchased was $62.40 and $60.51, respectively. At June 30, 2012, the Company had $2.91 billion of capacity remaining under the share repurchase authorization.

Conversion of Preferred Stock to Common Stock. In May 2011, the Company s board of directors authorized the redemption of the Company s preferred stock held by The Travelers 401(k) Savings Plan (the Savings Plan) and gave notice of that redemption to the appropriate fiduciaries of the Savings Plan. Following a fiduciary review, the Savings Plan exercised its right to convert each preferred share into eight shares of the Company s common stock. As a result, all preferred shares outstanding on June 7, 2011 (190,083 shares) were converted into a total of 1.52 million shares of the Company s common stock.

8. DEBT

On May 29, 2012, the Company purchased and retired $8.5 million aggregate principal amount of its 6.25% fixed-to-floating rate junior subordinated debentures due March 15, 2067. On June 15, 2012, the Company s $250 million, 5.375% senior notes matured and were fully paid.

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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 (loss) 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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Basic				
Net income (loss), as reported	**$ 499**	$ (364)	**$ 1,305**	$ 475
Participating share-based awards allocated income	**(4)**	(2)	**(10)**	(4)
Preferred stock dividends				(1)
Net income (loss) available to common shareholders basic	**$ 495**	$ (366)	**$ 1,295**	$ 470
Diluted				
Net income (loss) available to common shareholders	**$ 495**	$ (366)	**$ 1,295**	$ 470
Effect of dilutive securities:				
Convertible preferred stock				1
Net income (loss) available to common shareholders diluted	**$ 495**	$ (366)	**$ 1,295**	$ 471
Common Shares				
Basic				
Weighted average shares outstanding	**388.0**	418.6	**390.0**	423.3
Diluted				
Weighted average shares outstanding	**388.0**	418.6	**390.0**	423.3
Weighted average effects of dilutive securities:				
Stock options and performance shares	**3.6**		**3.5**	4.4
Convertible preferred stock				1.4
Total	**391.6**	418.6	**393.5**	429.1
Net Income (Loss) per Common Share				
Basic	**$ 1.27**	$ (0.88)	**$ 3.32**	$ 1.11
Diluted	**$ 1.26**	$ (0.88)	**$ 3.29**	$ 1.10

Net loss per basic and diluted common share for the three months ended June 30, 2011 excluded the allocation of $4.6 million of undistributed loss to participating share-based awards, since such allocation would result in anti-dilution of basic and diluted earnings per share for the three months ended June 30, 2011. In addition, the net loss per diluted common share for the three months ended June 30, 2011 excluded the weighted average effects of 4.6 million stock options and performance shares, and convertible preferred stock convertible into 1.2 million common shares. The impact of these potential shares of common stock and their effects on income were excluded from the calculation of net loss per share on a diluted basis as their effect was anti-dilutive for the three months ended June 30, 2011.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

10. SHARE-BASED INCENTIVE COMPENSATION

The following information relates to fully vested stock option awards at June 30, 2012:

Stock Options	Number		Weighted Average Exercise Price	Weighted Average Contractual Life Remaining		Aggregate Intrinsic Value ($ in millions)
Vested at end of period (1)	**11,030,213**	**$**	**47.95**	**5.2 years**	**$**	**175**
Exercisable at end of period	**8,017,683**	**$**	**45.05**	**3.9 years**	**$**	**151**

(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 $28 million and $30 million for the three months ended June 30, 2012 and 2011, respectively, and $66 million and $67 million for the six months ended June 30, 2012 and 2011, respectively. The related tax benefits recognized in the consolidated statement of income (loss) was $10 million for each of the three months ended June 30, 2012 and 2011, and $23 million for each of the six months ended June 30, 2012 and 2011.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at June 30, 2012 was $161 million, which is expected to be recognized over a weighted-average period of 2.0 years. The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at December 31, 2011 was $114 million, which was expected to be recognized over a weighted-average period of 1.7 years.

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 (loss).

(for the three months ended June 30, in millions)	Pension Plans 2012	2011	Postretirement Benefit Plans 2012	2011
Net Periodic Benefit Cost:				
Service cost	**$ 29**	$ 24	**$**	$
Interest cost on benefit obligation	**34**	34	**3**	4
Expected return on plan assets	**(47)**	(45)	**(1)**	(1)
Amortization of unrecognized:				
Prior service benefit				
Net actuarial loss	**23**	19		
Net benefit expense	**$ 39**	$ 32	**$ 2**	$ 3

(for the six months ended June 30, in millions)	Pension Plans 2012	2011	Postretirement Benefit Plans 2012	2011
Net Periodic Benefit Cost:				
Service cost	**$ 57**	$ 49	**$**	$
Interest cost on benefit obligation	**69**	68	**6**	7
Expected return on plan assets	**(94)**	(91)	**(1)**	(1)
Amortization of unrecognized:				
Prior service benefit				
Net actuarial loss	**45**	38		
Net benefit expense	**$ 77**	$ 64	**$ 5**	$ 6

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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 receives claims for insurance arising under policies issued by the Company asserting alleged injuries and damages from asbestos- and environmental-related exposures that are the subject of related coverage litigation, including, among others, the litigation described below. The Company 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) and other insurers (not including The St. Paul Companies, Inc. (SPC)) in state court in West Virginia. These and other cases subsequently filed in West Virginia were consolidated into a single proceeding in the Circuit Court of Kanawha County, West Virginia. The plaintiffs allege that the insurer defendants engaged in unfair trade practices in violation of state statutes by inappropriately handling and settling asbestos claims. The plaintiffs seek to reopen large numbers of settled asbestos claims and to impose liability for damages, including punitive damages, directly on insurers. Similar lawsuits alleging inappropriate handling and settling of asbestos claims were filed in Massachusetts and Hawaii state courts. These suits are collectively referred to as the Statutory and Hawaii Actions.

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

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

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

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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

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

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

The plaintiffs in the Statutory and Hawaii actions and the Common Law Claims actions filed Motions to Compel with the bankruptcy court on September 2, 2010 and September 3, 2010, respectively, arguing that all conditions precedent to the settlements have been met and seeking to require TPC to pay the settlement amounts. On September 30, 2010, TPC filed an Opposition to the plaintiffs Motions to Compel on the grounds that the conditions precedent to the settlements, principally the requirement that all contribution claims be barred, have not been met in light of the Second Circuit s March 22, 2010 opinion. On December 16, 2010, the bankruptcy court granted the plaintiffs motions and ruled that TPC was required to fund the settlements. On January 20, 2011, the bankruptcy court entered judgment in accordance with its December 16, 2010 ruling and ordered TPC to pay the settlement amounts plus prejudgment interest. On January 21, 2011, TPC filed an appeal with the U.S. District Court for the Southern District of New York from the bankruptcy court s January 20, 2011 judgment. On January 24, 2011, certain of the plaintiffs in the Common Law Claims actions appealed that portion of the bankruptcy court s January 20, 2011 judgment that denied their request for an order of contempt and for sanctions. On March 1, 2012, the district court ruled in TPC s favor and reversed the bankruptcy court, finding that the conditions to the settlements had not been met, and that TPC is not obligated to pay the settlement amounts. The district court also upheld the bankruptcy court s order denying the plaintiffs motion for an order of contempt and for sanctions. The district court further ruled that, since TPC is not obligated to go forward with the settlements, it was unnecessary to address the issue of pre-judgment interest. The plaintiffs appealed the district court s March 1, 2012 decision to the Second Circuit Court of Appeals, and those appeals are pending.

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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

Broker Anti-Trust Litigation In 2005, four putative class action lawsuits were brought against a number of insurance brokers and insurers, including the Company, by plaintiffs who allegedly purchased insurance products through one or more of the defendant brokers. The plaintiffs alleged that various insurance brokers conspired with each other and with various insurers, including the Company, to artificially inflate premiums, allocate brokerage customers and rig bids for insurance products offered to those customers. To the extent they were not originally filed there, the federal class actions were transferred to the U.S. District Court for the District of New Jersey and were consolidated for pre-trial proceedings with other class actions under the caption *In re Insurance Brokerage Antitrust Litigation*. On August 1, 2005, various plaintiffs, including the four named plaintiffs in the above-referenced class actions, filed an amended consolidated class action complaint naming various brokers and insurers, including the Company, on behalf of a putative nationwide class of policyholders. The complaint included causes of action under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state common law and the laws of the various states prohibiting antitrust violations. The complaint sought monetary damages, including punitive damages and trebled damages, permanent injunctive relief, restitution, including disgorgement of profits, interest and costs, including attorneys fees. All defendants moved to dismiss the complaint for failure to state a claim. After giving plaintiffs multiple opportunities to replead, the court dismissed the Sherman Act claims on August 31, 2007 and the RICO claims on September 28, 2007, both with prejudice, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs appealed the district court s decisions to the U.S. Court of Appeals for the Third Circuit. On August 16, 2010, the Third Circuit affirmed the district court s dismissal of all Sherman Act and RICO claims against certain defendants, including the Company, except for Sherman Act and RICO claims involving the sale of excess casualty insurance through a single defendant broker, as well as all state law claims, which they remanded to the district court for further proceedings. On October 1, 2010, defendants, including the Company, filed renewed motions to dismiss the remanded claims. On March 18, 2011, the Company and certain other defendants entered into an agreement with the plaintiffs to settle the lawsuit, under which the Company agreed to pay $6.75 million. Preliminary approval of the settlement was granted on June 27, 2011. On September 14, 2011, the court conducted a final fairness hearing, and on March 30, 2012, the court granted final approval of the settlement. On April 27, 2012, three members of the settlement class appealed the court s order granting final approval of the settlement to the U.S. Court of Appeals for the Third Circuit. Those appeals are pending.

Other In addition to those described above, 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 20, 2010, in a reinsurance dispute in New York state court captioned *United States Fidelity & Guaranty Company v. American Re-Insurance Company, et al.,* the trial court granted summary judgment for United States Fidelity and Guaranty Company (USF&G), a subsidiary of the Company, and on October 25, 2010, entered judgment against American Re-Insurance Company, a subsidiary of Munich Re (American Re) and three other reinsurers, awarding USF&G $251 million plus pre-judgment interest in the amount of $169 million. 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, which, as of that date, totaled $467 million, comprising the judgment of $251 million and interest of $216 million (including post-judgment interest). Post-judgment interest continues to accrue (without

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

compounding) at the rate of 9% until the judgment is paid. At June 30, 2012, the judgment, including post-judgment interest, totaled $484 million. 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. The reinsurers appeal is pending. The $251 million awarded by the court represents the amount owed to USF&G under the terms of the disputed reinsurance agreements and is reported as part of reinsurance recoverables in the Company s consolidated balance sheet. The interest awarded by the Court, including post-judgment interest, 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.

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. The settlement includes a plan of allocation of the settlement proceeds among the class members. 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 regarding its approval of the settlement. Three parties who objected to the settlement have appealed the court s orders approving the settlement to the U.S. Court of Appeals for the Seventh Circuit. The Company anticipates that its allocation from the settlement fund, in the event the court s approval of the class settlement is affirmed, will be approximately $90 million. This amount 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.

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 $1.18 billion and $1.15 billion at June 30, 2012 and December 31, 2011, respectively.

Guarantees

In the ordinary course of selling business entities to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the business entities being sold, covenants and obligations of the Company and/or its subsidiaries following the closing, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development, imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, or certain named litigation. Such indemnification provisions generally survive for periods ranging from seven years following the applicable closing date to the expiration of the relevant statutes of limitations, although, in some cases, there may be other agreed upon term limitations or no term limitations. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. The maximum amount of the Company s contingent obligation for indemnifications related to the sale of business entities that are quantifiable was $1.22 billion at June 30, 2012, 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 $126 million at June 30, 2012, 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 June 30, 2012, 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, its wholly-owned subsidiary, which totaled $1.20 billion at June 30, 2012.

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended June 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,745	$ 1,784	$	$	$ 5,529
Net investment income	507	229	2		738
Fee income	58	1			59
Net realized investment gains	3	1			4
Other revenues	22	7			29
Total revenues	4,335	2,022	2		6,359
Claims and expenses					
Claims and claim adjustment expenses	2,549	1,237			3,786
Amortization of deferred acquisition costs	647	329			976
General and administrative expenses	608	284	1		893
Interest expense	18		78		96
Total claims and expenses	3,822	1,850	79		5,751
Income (loss) before income taxes	513	172	(77)		608
Income tax expense (benefit)	119	27	(37)		109
Equity in net income of subsidiaries			539	(539)	
Net income	$ 394	$ 145	$ 499	$ (539)	$ 499

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains					
Other-than-temporary impairment losses:					
Total gains (losses)	$ (1)	$ 12	$	$	$ 11
Non-credit component of impairments recognized in accumulated other comprehensive income	(2)	(13)			(15)

Other-than-temporary impairment losses	(3)	(1)			(4)
Other net realized investment gains	6	2			8
Net realized investment gains	$ 3	$ 1	$	$	$ 4

(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 INCOME (LOSS) (Unaudited)

For the three months ended June 30, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,710	$ 1,793	$	$	$ 5,503
Net investment income	511	245	2		758
Fee income	73	1			74
Net realized investment gains (losses)	12	11	(4)		19
Other revenues	27	7			34
Total revenues	4,333	2,057	(2)		6,388
Claims and expenses					
Claims and claim adjustment expenses	3,431	1,710			5,141
Amortization of deferred acquisition costs	641	329			970
General and administrative expenses	591	290	26		907
Interest expense	18		79		97
Total claims and expenses	4,681	2,329	105		7,115
Loss before income taxes	(348)	(272)	(107)		(727)
Income tax benefit	(204)	(126)	(33)		(363)
Equity in net loss of subsidiaries			(290)	290	
Net loss	$ (144)	$ (146)	$ (364)	$ 290	$ (364)

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total gains (losses)	$ (3)	$ 8	$	$	$ 5
Non-credit component of impairments recognized in accumulated other comprehensive income		(9)			(9)

Other-than-temporary impairment losses	(3)	(1)			(4)
Other net realized investment gains (losses)	15	12	(4)		23
Net realized investment gains (losses)	$ 12	$ 11	$ (4)	$	$ 19

(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 INCOME (Unaudited)

For the six months ended June 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 7,488	$ 3,564	$	$	$ 11,052
Net investment income	1,001	473	4		1,478
Fee income	140	1			141
Net realized investment gains (losses)	15	(1)			14
Other revenues	49	17			66
Total revenues	8,693	4,054	4		12,751
Claims and expenses					
Claims and claim adjustment expenses	4,821	2,329			7,150
Amortization of deferred acquisition costs	1,293	654			1,947
General and administrative expenses	1,207	566	4		1,777
Interest expense	36		156		192
Total claims and expenses	7,357	3,549	160		11,066
Income (loss) before income taxes	1,336	505	(156)		1,685
Income tax expense (benefit)	324	111	(55)		380
Equity in net income of subsidiaries			1,406	(1,406)	
Net income	$ 1,012	$ 394	$ 1,305	$ (1,406)	$ 1,305

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total gains	$	$ 11	$	$	$ 11
Non-credit component of impairments recognized in accumulated other comprehensive income	(6)	(13)			(19)

Other-than-temporary impairment losses	(6)	(2)			(8)
Other net realized investment gains (losses)	21	1			22
Net realized investment gains (losses)	$ 15	$ (1)	$	$	$ 14

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

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the six months ended June 30, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 7,335	$ 3,539	$	$	$ 10,874
Net investment income	1,043	489	5		1,537
Fee income	147	1			148
Net realized investment gains (losses)	21	23	(5)		39
Other revenues	57	11			68
Total revenues	8,603	4,063			12,666
Claims and expenses					
Claims and claim adjustment expenses	5,665	2,858			8,523
Amortization of deferred acquisition costs	1,267	651			1,918
General and administrative expenses	1,187	580	23		1,790
Interest expense	36		157		193
Total claims and expenses	8,155	4,089	180		12,424
Income (loss) before income taxes	448	(26)	(180)		242
Income tax benefit	(8)	(69)	(156)		(233)
Equity in net income of subsidiaries			499	(499)	
Net income	$ 456	$ 43	$ 475	$ (499)	$ 475

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total gains (losses)	$ (1)	$ 8	$	$	$ 7
Non-credit component of impairments recognized in accumulated other comprehensive income	(5)	(10)			(15)

Other-than-temporary impairment losses	(6)	(2)			(8)
Other net realized investment gains (losses)	27	25	(5)		47
Net realized investment gains (losses)	$ 21	$ 23	$ (5)	$	$ 39

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

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended June 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net income	$ 394	$ 145	$ 499	$ (539)	$ 499
Other comprehensive income:					
Change in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	167	52	216	(219)	216
Having credit losses recognized in the consolidated statement of income	5		5	(5)	5
Net changes in benefit plan assets and obligations		1	22	(1)	22
Net changes in unrealized foreign currency translation and other changes	(54)	(32)	(86)	86	(86)
Other comprehensive income before income taxes	118	21	157	(139)	157
Income tax expense	43	16	66	(59)	66
Other comprehensive income, net of taxes	75	5	91	(80)	91
Comprehensive income	$ 469	$ 150	$ 590	$ (619)	$ 590

(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 June 30, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net loss	$ (144)	$ (146)	$ (364)	$ 290	$ (364)
Other comprehensive income:					
Change in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income (loss)	441	204	645	(645)	645
Having credit losses recognized in the consolidated statement of income (loss)	(8)	(2)	(10)	10	(10)
Net changes in benefit plan assets and obligations			19		19
Net changes in unrealized foreign currency translation and other changes	13	4	16	(17)	16
Other comprehensive income before income taxes	446	206	670	(652)	670
Income tax expense	154	71	231	(225)	231
Other comprehensive income, net of taxes	292	135	439	(427)	439
Comprehensive income (loss)	$ 148	$ (11)	$ 75	$ (137)	$ 75

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

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the six months ended June 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net income	$ 1,012	$ 394	$ 1,305	$ (1,406)	$ 1,305
Other comprehensive income:					
Change in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income	113	20	139	(133)	139
Having credit losses recognized in the consolidated statement of income	21	9	30	(30)	30
Net changes in benefit plan assets and obligations			42		42
Net changes in unrealized foreign currency translation and other changes	(33)	11	(22)	22	(22)
Other comprehensive income before income taxes	101	40	189	(141)	189
Income tax expense	36	11	64	(47)	64
Other comprehensive income, net of taxes	65	29	125	(94)	125
Comprehensive income	$ 1,077	$ 423	$ 1,430	$ (1,500)	$ 1,430

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

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

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the six months ended June 30, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net income	$ 456	$ 43	$ 475	$ (499)	$ 475
Other comprehensive income:					
Change in net unrealized gains on investment securities:					
Having no credit losses recognized in the consolidated statement of income (loss)	371	165	539	(536)	539
Having credit losses recognized in the consolidated statement of income (loss)	2	16	18	(18)	18
Net changes in benefit plan assets and obligations			37		37
Net changes in unrealized foreign currency translation and other changes	35	51	86	(86)	86
Other comprehensive income before income taxes	408	232	680	(640)	680
Income tax expense	140	70	224	(210)	224
Other comprehensive income, net of taxes	268	162	456	(430)	456
Comprehensive income	$ 724	$ 205	$ 931	$ (929)	$ 931

(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 BALANCE SHEET (Unaudited)

At June 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost $60,313)	$ 44,014	$ 20,657	$ 34	$	$ 64,705
Equity securities, available for sale, at fair value (cost $436)	147	348	100		595
Real estate investments	33	866			899
Short-term securities	1,095	269	1,911		3,275
Other investments	2,395	1,074	1		3,470
Total investments	47,684	23,214	2,046		72,944
Cash	110	116	4		230
Investment income accrued	509	242			751
Premiums receivable	4,130	2,067			6,197
Reinsurance recoverables	6,825	3,579			10,404
Ceded unearned premiums	670	204			874
Deferred acquisition costs	1,586	253			1,839
Contractholder receivables	3,563	1,340			4,903
Goodwill	2,411	954			3,365
Other intangible assets	283	122			405
Investment in subsidiaries			28,353	(28,353)	
Other assets	2,064	22	332		2,418
Total assets	$ 69,835	$ 32,113	$ 30,735	$ (28,353)	$ 104,330
Liabilities					
Claims and claim adjustment expense reserves	$ 33,415	$ 17,378	$	$	$ 50,793
Unearned premium reserves	7,835	3,614			11,449
Contractholder payables	3,563	1,340			4,903
Payables for reinsurance premiums	198	215			413
Deferred taxes	229	93	(128)		194
Debt	1,191		5,158		6,349

Other liabilities	3,869	645	666		5,180
Total liabilities	50,300	23,285	5,696		79,281
Shareholders equity					
Common stock (1,750.0 shares authorized; 386.0 shares issued and outstanding)		390	20,970	(390)	20,970
Additional paid-in capital	11,135	6,501		(17,636)	
Retained earnings	6,408	1,067	20,531	(7,465)	20,541
Accumulated other comprehensive income	1,992	870	2,130	(2,862)	2,130
Treasury stock, at cost (361.4 shares)			(18,592)		(18,592)
Total shareholders equity	19,535	8,828	25,039	(28,353)	25,049
Total liabilities and shareholders equity	$ 69,835	$ 32,113	$ 30,735	$ (28,353)	$ 104,330

(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 BALANCE SHEET (Unaudited)

At December 31, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (amortized cost $59,994)	$ 43,438	$ 20,761	$ 33	$	$ 64,232
Equity securities, available for sale, at fair value (cost $414)	146	319	94		559
Real estate investments	33	832			865
Short-term securities	879	376	2,339		3,594
Other investments	2,446	1,004	1		3,451
Total investments	46,942	23,292	2,467		72,701
Cash	114	98	2		214
Investment income accrued	517	251			768
Premiums receivable	3,865	1,865			5,730
Reinsurance recoverables	7,372	3,783			11,155
Ceded unearned premiums	656	172			828
Deferred acquisition costs	1,536	250			1,786
Deferred taxes	(82)	(47)	136		7
Contractholder receivables	3,891	1,295			5,186
Goodwill	2,411	954			3,365
Other intangible assets	297	136			433
Investment in subsidiaries			27,565	(27,565)	
Other assets	1,983	52	367		2,402
Total assets	$ 69,502	$ 32,101	$ 30,537	$ (27,565)	$ 104,575
Liabilities					
Claims and claim adjustment expense reserves	$ 33,727	$ 17,665	$	$	$ 51,392
Unearned premium reserves	7,644	3,458			11,102
Contractholder payables	3,891	1,295			5,186
Payables for reinsurance premiums	178	211			389
Debt	1,190		5,415		6,605

Other liabilities	3,910	859	655		5,424
Total liabilities	50,540	23,488	6,070		80,098
Shareholders equity					
Common stock (1,750.0 shares authorized; 392.8 shares issued and outstanding)		390	20,732	(390)	20,732
Additional paid-in capital	11,135	6,501		(17,636)	
Retained earnings	5,900	882	19,569	(6,772)	19,579
Accumulated other comprehensive income	1,927	840	2,005	(2,767)	2,005
Treasury stock, at cost (349.0 shares)			(17,839)		(17,839)
Total shareholders equity	18,962	8,613	24,467	(27,565)	24,477
Total liabilities and shareholders equity	$ 69,502	$ 32,101	$ 30,537	$ (27,565)	$ 104,575

(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 CASH FLOWS (Unaudited)

For the six months ended June 30, 2012

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,012	$ 394	$ 1,305	$ (1,406)	$ 1,305
Net adjustments to reconcile net income to net cash provided by operating activities	109	(283)	(560)	694	(40)
Net cash provided by operating activities	1,121	111	745	(712)	1,265
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	2,817	1,350			4,167
Proceeds from sales of investments:					
Fixed maturities	368	173	1		542
Equity securities	15	7			22
Real estate		3			3
Other investments	297	89			386
Purchases of investments:					
Fixed maturities	(3,744)	(1,454)	(2)		(5,200)
Equity securities	(2)	(30)	(1)		(33)
Real estate		(58)			(58)
Other investments	(139)	(82)			(221)
Net sales (purchases) of short-term securities	(176)	115	428		367
Securities transactions in course of settlement	87	(10)			77
Other	(144)	11			(133)
Net cash provided by (used in) investing activities	(621)	114	426		(81)
Cash flows from financing activities					
Payment of debt			(258)		(258)
Dividends paid to shareholders			(341)		(341)
Issuance of common stock employee share options			170		170
			(707)		(707)

Treasury shares acquired share repurchase authorization					
Treasury shares acquired net employee share-based compensation			(52)		(52)
Excess tax benefits from share-based payment arrangements			19		19
Dividends paid to parent company	(504)	(208)		712	
Net cash used in financing activities	(504)	(208)	(1,169)	712	(1,169)
Effect of exchange rate changes on cash		1			1
Net increase (decrease) in cash	(4)	18	2		16
Cash at beginning of year	114	98	2		214
Cash at end of period	$ 110	$ 116	$ 4	$	$ 230
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 286	$ 113	$ (103)	$	$ 296
Interest paid	$ 36	$	$ 155	$	$ 191

(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 CASH FLOWS (Unaudited)

For the six months ended June 30, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 456	$ 43	$ 475	$ (499)	$ 475
Net adjustments to reconcile net income to net cash provided by operating activities	355	99	(174)	146	426
Net cash provided by operating activities	811	142	301	(353)	901
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	1,969	1,265			3,234
Proceeds from sales of investments:					
Fixed maturities	382	353	1		736
Equity securities	15	32			47
Other investments	183	102			285
Purchases of investments:					
Fixed maturities	(2,342)	(1,204)	(1)		(3,547)
Equity securities		(74)	(29)		(103)
Real estate investments	(24)	(11)			(35)
Other investments	(549)	(80)			(629)
Net sales (purchases) of short-term securities	(108)	(500)	1,205		597
Securities transactions in course of settlement	150	63			213
Other	(135)	(8)			(143)
Net cash provided by (used in) investing activities	(459)	(62)	1,176		655
Cash flows from financing activities					
Payment of debt		(8)			(8)
Dividends paid to shareholders			(329)		(329)
Issuance of common stock employee share options			245		245
Treasury shares acquired share repurchase authorization			(1,360)		(1,360)

Treasury shares acquired net employee share-based compensation			(46)		(46)
Excess tax benefits from share-based payment arrangements			11		11
Dividends paid to parent company	(353)			353	
Net cash used in financing activities	(353)	(8)	(1,479)	353	(1,487)
Effect of exchange rate changes on cash		4			4
Net increase (decrease) in cash	(1)	76	(2)		73
Cash at beginning of year	86	110	4		200
Cash at end of period	$ 85	$ 186	$ 2	$	$ 273
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 199	$ 114	$ (22)	$	$ 291
Interest paid	$ 36	$	$ 155	$	$ 191

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

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

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

FINANCIAL HIGHLIGHTS

2012 Second Quarter Consolidated Results of Operations

- Net income of $499 million, or $1.27 per share basic and $1.26 per share diluted
- Net earned premiums of $5.53 billion
- Catastrophe losses of $549 million ($357 million after-tax)
- Net favorable prior year reserve development of $221 million ($147 million after-tax)
- GAAP combined ratio of 100.5%
- Net investment income of $738 million ($589 million after-tax)
- Operating cash flows of $451 million

2012 Second Quarter Consolidated Financial Condition

- Total investments of $72.94 billion; fixed maturities and short-term securities comprised 93% of total investments
- Total assets of $104.33 billion
- Total debt of $6.35 billion, resulting in a debt-to-total capital ratio of 20.2% (22.3% excluding net unrealized investment gains, net of tax)
- Repurchased 5.6 million common shares for total cost of $350 million under share repurchase authorization
- Shareholders equity of $25.05 billion
- Book value per common share of $64.90, up 9% from June 30, 2011

- Holding company liquidity of $1.98 billion

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CONSOLIDATED OVERVIEW

Consolidated Results of Operations

(in millions, except ratio and per share amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues				
Premiums	**$ 5,529**	$ 5,503	**$ 11,052**	$ 10,874
Net investment income	**738**	758	**1,478**	1,537
Fee income	**59**	74	**141**	148
Net realized investment gains	**4**	19	**14**	39
Other revenues	**29**	34	**66**	68
Total revenues	**6,359**	6,388	**12,751**	12,666
Claims and expenses				
Claims and claim adjustment expenses	**3,786**	5,141	**7,150**	8,523
Amortization of deferred acquisition costs	**976**	970	**1,947**	1,918
General and administrative expenses	**893**	907	**1,777**	1,790
Interest expense	**96**	97	**192**	193
Total claims and expenses	**5,751**	7,115	**11,066**	12,424
Income (loss) before income taxes	**608**	(727)	**1,685**	242
Income tax expense (benefit)	**109**	(363)	**380**	(233)
Net income (loss)	**$ 499**	$ (364)	**$ 1,305**	$ 475
Net income (loss) per share				
Basic	**$ 1.27**	$ (0.88)	**$ 3.32**	$ 1.11
Diluted	**$ 1.26**	$ (0.88)	**$ 3.29**	$ 1.10
GAAP combined ratio				
Loss and loss adjustment expense ratio	**68.1%**	92.6%	**64.1%**	77.6%
Underwriting expense ratio	**32.4**	32.4	**32.2**	32.5
GAAP combined ratio	**100.5%**	125.0%	**96.3%**	110.1%
Incremental impact of direct to consumer initiative on GAAP combined ratio	**0.7%**	0.9%	**0.7%**	1.0%

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

Overview

Diluted net income per share in the second quarter of 2012 was $1.26, compared with diluted net loss per share of $(0.88) in the second quarter of 2011, reflecting net income in the second quarter of 2012 of $499 million, compared with a net loss of $(364) million in the same period of

2011 and the favorable impact of common share repurchases. The improvement in net income in the second quarter of 2012 compared with the prior year quarter primarily reflected (i) a significant decline in catastrophe losses and, to a lesser extent, (ii) higher underwriting margins excluding catastrophe losses and prior year reserve development (underlying underwriting margins) primarily resulting from earned pricing that exceeded loss costs and (iii) an increase in net favorable prior year reserve development, partially offset by slightly lower net investment income. Catastrophe losses in the second quarter of 2012 were $549 million, compared with $1.67 billion in the same period of 2011. Net favorable prior year reserve development in the second quarter of 2012 was $221 million, compared with $168 million in the same period of 2011.

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Diluted net income per share in the first six months of 2012 was $3.29, compared with diluted net income per share of $1.10 in the same period of 2011, reflecting net income in the first six months of 2012 of $1.31 billion, compared with net income of $475 million in the same period of 2011 and the favorable impact of common share repurchases. The increase in net income primarily reflected the same factors discussed above. Catastrophe losses in the first six months of 2012 were $717 million, compared with $1.85 billion in the same period of 2011. Net favorable prior year reserve development in the first six months of 2012 was $525 million, compared with $405 million in the same period of 2011. In addition, net income in the first six months of 2011 reflected a $104 million benefit resulting from the favorable resolution of various prior year tax matters recorded in the first quarter of 2011.

Revenues

Earned Premiums

Earned premiums in the second quarter of 2012 were $5.53 billion, $26 million or less than 1% higher than in the same period of 2011. Earned premiums in the first six months of 2012 were $11.05 billion, $178 million or 2% higher than in the same period of 2011. In the Business Insurance segment, earned premiums in the second quarter and first six months of 2012 increased by 2% and 3% over the respective periods of 2011. In the Financial, Professional & International Insurance segment, earned premiums in the second quarter and first six months of 2012 both decreased by 5% from the same 2011 periods. In the Personal Insurance segment, earned premiums in the second quarter and first six months of 2012 increased by 1% and 2% over the respective periods of 2011. Factors contributing to the changes in earned premiums in each segment are discussed in more detail in the segment discussions that follow.

Net Investment Income

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

(dollars in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Average investments (a)	**$ 69,623**	$ 70,476	**$ 69,555**	$ 70,659
Pretax net investment income	**738**	758	**1,478**	1,537
After-tax net investment income	**589**	606	**1,182**	1,228
Average pretax yield (b)	**4.2%**	4.3%	**4.2%**	4.4%
Average after-tax yield (b)	**3.4%**	3.4%	**3.4%**	3.5%

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

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

Net investment income in the second quarter of 2012 was $738 million, $20 million or 3% lower than in the same period of 2011. Net investment income in the first six months of 2012 was $1.48 billion, $59 million or 4% lower than in the same period of 2011. Net investment income from fixed maturity investments in the second quarter and first six months of 2012 was $611 million and $1.23 billion, respectively, $23 million and $45 million lower, respectively, than in the same periods of 2011. The declines in both periods primarily resulted from lower long-term reinvestment yields available in the market. Net investment income generated by non-fixed maturity investments in the second quarter and first six months of 2012 was $133 million and $261 million, respectively, $4 million higher and $8 million lower, respectively, than in the same periods of 2011.

Fee Income

The National Accounts market in the Business Insurance segment is the primary source of the Company s fee-based business. The $15 million and $7 million decreases in fee income in the second quarter and first six months of 2012, respectively, compared with the same periods of 2011 are discussed in the Business Insurance segment discussion that follows.

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Net Realized Investment Gains

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

(in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net Realized Investment Gains				
Other-than-temporary impairment losses:				
Total gains	**$ 11**	$ 5	**$ 11**	$ 7
Non-credit component of impairments recognized in accumulated other comprehensive income	**(15)**	(9)	**(19)**	(15)
Other-than-temporary impairment losses	**(4)**	(4)	**(8)**	(8)
Other net realized investment gains	**8**	23	**22**	47
Net realized investment gains	**$ 4**	$ 19	**$ 14**	$ 39

Other Revenues

Other revenues in the second quarter and first six months of both 2012 and 2011 primarily consisted of premium installment charges.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses in the second quarter of 2012 were $3.79 billion, $1.36 billion or 26% lower than in the same period of 2011. The decrease primarily reflected (i) the significant decline in catastrophe losses and, to a much lesser extent, (ii) lower levels of what the Company defines as large losses and non-catastrophe weather-related losses, and (iii) an increase in net favorable prior year reserve development, partially offset by the impact of loss cost trends. Catastrophe losses in the second quarters of 2012 and 2011 were $549 million and $1.67 billion, respectively. Catastrophe losses in the second quarter of 2012 primarily resulted from wind and hail storms in several regions of the United States. Catastrophe losses in the second quarter of 2011 resulted from multiple tornadoes and hail storms, primarily in the Midwest and Southeast regions of the United States. Net favorable prior year reserve development in the second quarters of 2012 and 2011 was $221 million and $168 million, respectively.

Claims and claim adjustment expenses in the first six months of 2012 were $7.15 billion, $1.37 billion or 16% lower than in the same period of 2011, primarily reflecting the same factors described above. Catastrophe losses in the first six months of 2012 and 2011 were $717 million and $1.85 billion, respectively. Catastrophe losses in the first six months of 2012 included the second quarter storms described above, as well as tornadoes and hail storms in the Midwest and Southeast regions of the United States in the first quarter of 2012. Catastrophe losses in the first six months of 2011 included the second quarter storms described above, as well severe winter storms throughout the United States in the first quarter of 2011. Net favorable prior year reserve development in the first six months of 2012 and 2011 was $525 million and $405 million, respectively. Factors contributing to net favorable prior year reserve development in each segment during these periods are discussed in more detail in the segment discussions that follow.

Amortization of Deferred Acquisition Costs

The amortization of deferred acquisition costs in the second quarter of 2012 was $976 million, $6 million or 1% higher than in the same period of 2011. The amortization of deferred acquisition costs in the first six months of 2012 was $1.95 billion, $29 million or 2% higher than in the same 2011 period. The increases in both periods of 2012 were generally consistent with the increases in earned premiums.

General and Administrative Expenses

General and administrative expenses in the second quarter of 2012 were $893 million, $14 million or 2% lower than in the same period of 2011. General and administrative expenses in the first six months of 2012 were $1.78 billion, $13 million or 1% lower than in the same period of 2011. General and administrative expenses are discussed in more detail in the segment discussions that follow.

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Interest Expense

Interest expense in the second quarter and first six months of 2012 was $96 million and $192 million, respectively, virtually level with the same periods of 2011.

Income Taxes. The Company s effective tax rates in the second quarter and first six months of 2012 were 18% and 23%, respectively, lower than the statutory rate of 35% primarily due to the impact of tax-exempt investment income on the calculation of the Company s income tax provision. The Company s income tax benefits of $363 million and $233 million in the second quarter and first six months of 2011, respectively, primarily reflected the pretax net loss in the second quarter of 2011, as well as the impact of tax-exempt investment income on the calculation of the Company s tax provision in both periods. In addition, the year-to-date income tax benefit in 2011 included the $104 million benefit resulting from the favorable resolution of various prior year tax matters recorded in the first quarter of 2011.

GAAP Combined Ratio

The consolidated GAAP combined ratio of 100.5% in the second quarter of 2012 was 24.5 points lower than the consolidated GAAP combined ratio of 125.0% in the same period of 2011. The consolidated GAAP combined ratio of 96.3% in the first six months of 2012 was 13.8 points lower than the consolidated GAAP combined ratio of 110.1% in the same period of 2011.

The consolidated loss and loss adjustment expense ratio of 68.1% in the second quarter of 2012 was 24.5 points lower than the consolidated loss and loss adjustment expense ratio of 92.6% in the same period of 2011. Catastrophe losses accounted for 10.0 points and 30.3 points of the 2012 and 2011 second quarter loss and loss adjustment expense ratios, respectively. The 2012 and 2011 second quarter loss and loss adjustment expense ratios included 4.0 and 3.1 points of benefit from net favorable prior year reserve development, respectively. The 2012 second quarter loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development was 3.3 points lower than the 2011 ratio on the same basis, primarily reflecting earned pricing that exceeded loss cost trends, as well as lower levels of what the Company defines as large losses and non-catastrophe weather-related losses.

The consolidated loss and loss adjustment expense ratio of 64.1% in the first six months of 2012 was 13.5 points lower than the consolidated loss and loss adjustment expense ratio of 77.6% in the same period of 2011. Catastrophe losses accounted for 6.5 points and 17.1 points of the 2012 and 2011 six month loss and loss adjustment expense ratios, respectively. The 2012 and 2011 six month loss and loss adjustment expense ratios included 4.8 and 3.7 points of benefit from net favorable prior year reserve development, respectively. The 2012 six month loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development was 1.8 points lower than the 2011 ratio on the same basis, also reflecting the same factors discussed above for the second quarter of 2012.

The consolidated underwriting expense ratio of 32.4% for the second quarter of 2012 was level with the consolidated underwriting expense ratio in the same period of 2011. In the first six months of 2012, the consolidated underwriting expense ratio of 32.2% was 0.3 points lower than the consolidated underwriting expense ratio of 32.5% in the same 2011 period.

Written Premiums

Consolidated gross and net written premiums were as follows:

	Gross Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2012**	**2011**	**2012**	**2011**
Business Insurance	**$ 3,280**	$ 3,094	**$ 6,709**	$ 6,400
Financial, Professional & International Insurance	**882**	910	**1,673**	1,720
Personal Insurance	**2,078**	2,120	**3,931**	3,965
Total	**$ 6,240**	$ 6,124	**$ 12,313**	$ 12,085

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	Net Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2012**	**2011**	**2012**	**2011**
Business Insurance	**$ 3,026**	$ 2,879	**$ 6,126**	$ 5,899
Financial, Professional & International Insurance	**840**	879	**1,444**	1,503
Personal Insurance	**2,002**	2,059	**3,795**	3,852
Total	**$ 5,868**	$ 5,817	**$ 11,365**	$ 11,254

Gross and net written premiums in the second quarter of 2012 increased by 2% and 1%, respectively, over the same period of 2011. Gross and net written premiums in the first six months of 2012 also increased by 2% and 1%, respectively, over the same period of 2011. Factors contributing to the changes in gross and net written premiums in each segment are discussed in more detail in the segment discussions that follow.

RESULTS OF OPERATIONS BY SEGMENT

Business Insurance

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

Three Months Ended
June 30,