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, 2011

or

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

For the transition period from to

Commission file number: 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**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 15, 2011 was 418,738,724.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended June 30, 2011

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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, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues				
Premiums	**$ 5,503**	$ 5,340	**$ 10,874**	$ 10,570
Net investment income	**758**	762	**1,537**	1,515
Fee income	**74**	76	**148**	155
Net realized investment gains (losses)	**19**	(31)	**39**	(6)
Other revenues	**34**	32	**68**	64
Total revenues	**6,388**	6,179	**12,666**	12,298
Claims and expenses				
Claims and claim adjustment expenses	**5,141**	3,419	**8,523**	6,807
Amortization of deferred acquisition costs	**970**	950	**1,918**	1,879
General and administrative expenses	**907**	832	**1,790**	1,679
Interest expense	**97**	97	**193**	195
Total claims and expenses	**7,115**	5,298	**12,424**	10,560
Income (loss) before income taxes	**(727)**	881	**242**	1,738
Income tax expense (benefit)	**(363)**	211	**(233)**	421
Net income (loss)	**$ (364)**	$ 670	**$ 475**	$ 1,317
Net income (loss) per share				
Basic	**$ (0.88)**	$ 1.37	**$ 1.11**	$ 2.63
Diluted	**$ (0.88)**	$ 1.35	**$ 1.10**	$ 2.60
Weighted average number of common shares outstanding				
Basic	**418.6**	484.5	**423.3**	496.3
Diluted	**418.6**	490.8	**429.1**	502.6

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010

Net Realized Investment Gains (Losses)								
Other-than-temporary impairment losses:								
Total gains	**$**	**5**	$	2	**$**	**7**	$	1
Non-credit component of impairments recognized in accumulated other changes in equity from nonowner sources		**(9)**		(6)		**(15)**		(15)
Other-than-temporary impairment losses		**(4)**		(4)		**(8)**		(14)
Other net realized investment gains (losses)		**23**		(27)		**47**		8
Net realized investment gains (losses)	**$**	**19**	$	(31)	**$**	**39**	$	(6)

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Fixed maturities, available for sale, at fair value (including $94 and $186 subject to securities lending) (amortized cost $59,767 and $60,170)	**$ 62,976**	$ 62,820
Equity securities, available for sale, at fair value (cost $461 and $372)	**600**	519
Real estate	**854**	838
Short-term securities	**5,024**	5,616
Other investments	**3,539**	2,929
Total investments	**72,993**	72,722
Cash	**273**	200
Investment income accrued	**768**	791
Premiums receivable	**6,043**	5,497
Reinsurance recoverables	**11,780**	11,994
Ceded unearned premiums	**802**	813
Deferred acquisition costs	**1,840**	1,782
Deferred tax asset	**128**	493
Contractholder receivables	**5,370**	5,343
Goodwill	**3,365**	3,365
Other intangible assets	**465**	502
Other assets	**2,641**	2,154
Total assets	**$ 106,468**	$ 105,656
Liabilities		
Claims and claim adjustment expense reserves	**$ 52,596**	$ 51,606
Unearned premium reserves	**11,339**	10,921
Contractholder payables	**5,370**	5,343
Payables for reinsurance premiums	**409**	407
Debt	**6,604**	6,611
Other liabilities	**5,142**	5,293
Total liabilities	**81,460**	80,181
Shareholders equity		
Preferred Stock Savings Plan convertible preferred stock (0.0 and 0.2 shares issued and outstanding)		68
Common stock (1,748.6 shares authorized; 419.5 and 434.6 shares issued and outstanding)	**20,607**	20,162
Retained earnings	**18,966**	18,847
Accumulated other changes in equity from nonowner sources	**1,711**	1,255
Treasury stock, at cost (320.8 and 296.6 shares)	**(16,276)**	(14,857)
Total shareholders equity	**25,008**	25,475

Total liabilities and shareholders equity	**$**	**106,468**	$	105,656

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the six months ended June 30,	**2011**	2010
Convertible preferred stock savings plan		
Balance, beginning of year	**$ 68**	$ 79
Redemptions	**(5)**	(7)
Conversion to common stock	**(63)**	
Balance, end of period		72
Common stock		
Balance, beginning of year	**20,162**	19,593
Employee share-based compensation	**263**	209
Common shares issued conversion of preferred stock	**93**	
Compensation amortization under share-based plans and other changes	**89**	82
Balance, end of period	**20,607**	19,884
Retained earnings		
Balance, beginning of year	**18,847**	16,315
Net income	**475**	1,317
Dividends	**(331)**	(345)
Premium on preferred stock converted to common stock	**(30)**	
Other	**5**	(2)
Balance, end of period	**18,966**	17,285
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	**1,255**	1,219
Change in net unrealized gain on investment securities:		
Having no credit losses recognized in the consolidated statement of income (loss)	**369**	476
Having credit losses recognized in the consolidated statement of income (loss)	**12**	44
Net change in unrealized foreign currency translation and other changes	**75**	(49)
Balance, end of period	**1,711**	1,690
Treasury stock (at cost)		
Balance, beginning of year	**(14,857)**	(9,791)
Treasury shares acquired share repurchase authorization	**(1,337)**	(2,800)
Net shares acquired related to employee share-based compensation plans	**(82)**	(54)
Balance, end of period	**(16,276)**	(12,645)
Total common shareholders equity	**25,008**	26,214
Total shareholders equity	**$ 25,008**	$ 26,286
Common shares outstanding		
Balance, beginning of year	**434.6**	520.3

Treasury shares acquired share repurchase authorization		**(22.8)**		(55.0)
Common shares issued conversion of preferred stock		**1.5**		
Net shares issued under employee share-based compensation plans		**6.2**		5.5
Balance, end of period		**419.5**		470.8
Summary of changes in equity from nonowner sources				
Net income	**$**	**475**	$	1,317
Other changes in equity from nonowner sources, net of tax		**456**		471
Total changes in equity from nonowner sources	**$**	**931**	$	1,788

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,	2011	2010
Cash flows from operating activities		
Net income	**$ 475**	$ 1,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment (gains) losses	**(39)**	6
Depreciation and amortization	**405**	411
Deferred federal income tax expense	**137**	51
Amortization of deferred acquisition costs	**1,918**	1,879
Equity in income from other investments	**(231)**	(116)
Premiums receivable	**(542)**	(382)
Reinsurance recoverables	**225**	528
Deferred acquisition costs	**(1,973)**	(1,930)
Claims and claim adjustment expense reserves	**889**	(692)
Unearned premium reserves	**395**	270
Other	**(758)**	(291)
Net cash provided by operating activities	**901**	1,051
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**3,234**	2,478
Proceeds from sales of investments:		
Fixed maturities	**736**	2,781
Equity securities	**47**	27
Real estate		10
Other investments	**285**	189
Purchases of investments:		
Fixed maturities	**(3,547)**	(3,940)
Equity securities	**(103)**	(19)
Real estate	**(35)**	(8)
Other investments	**(629)**	(227)
Net sales of short-term securities	**597**	1,050
Securities transactions in course of settlement	**213**	2
Other	**(143)**	(145)
Net cash provided by investing activities	**655**	2,198
Cash flows from financing activities		
Payment of debt	**(8)**	(250)
Dividends paid to shareholders	**(329)**	(343)
Issuance of common stock employee share options	**245**	199
Treasury stock acquired share repurchase authorization	**(1,360)**	(2,804)
Treasury stock acquired net employee share-based compensation	**(46)**	(40)
Excess tax benefits from share-based payment arrangements	**11**	5
Net cash used in financing activities	**(1,487)**	(3,233)
Effect of exchange rate changes on cash	**4**	(5)

Net increase in cash		**73**		11
Cash at beginning of year		**200**		255
Cash at end of period	**$**	**273**	$	266
Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**291**	$	309
Interest paid	**$**	**191**	$	200

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

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

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

Accounting Standards Not Yet Adopted

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

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

The updated guidance is effective for the quarter ending March 31, 2012. The adoption of this guidance is not expected to have any impact on the Company s results of operations, financial position or liquidity.

Creditors Evaluation of Whether a Restructuring is a Troubled Debt Restructuring

In April 2011, the FASB issued updated guidance to clarify whether a modification or restructuring of a receivable is considered a troubled debt restructuring, i.e., whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties. A modification or restructuring that is considered a troubled debt restructuring will result in the creditor having to account for the receivable as being impaired and will also result in additional disclosure of the creditors troubled debt restructuring activities. The updated guidance is effective for the quarter ending September 30, 2011 and is to be applied on a retrospective basis to the beginning of the annual period of adoption.

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

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 must 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 is effective for the quarter ending 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 is not expected to have any impact on the Company s results of operations, financial position or liquidity.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

Presentation of Comprehensive Income

In June 2011, the 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 stockholders equity. The updated guidance requires that all nonowner changes in stockholders equity be presented either as a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance is to be applied retrospectively and is effective for the quarter ending March 31, 2012. Early adoption is permitted.

The updated guidance will result in a change in the presentation of the Company s financial statements but will not have any impact on the Company s results of operations, financial position or liquidity.

Nature of Operations

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

Business Insurance

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

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

Financial, Professional & International Insurance

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

On June 17, 2011, the Company acquired 43% of the common stock of J. Malucelli Participações em Seguros e Resseguros S.A, a Brazilian company (JMalucelli). JMalucelli is currently the market leader in surety in Brazil based on market share. The Company s investment in JMalucelli will be accounted for using the equity method and is included in other investments on the consolidated balance sheet.

Personal Insurance

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION

The following tables summarize the components of the Company s revenues, operating income (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
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)**
2010				
Premiums	$ 2,663	$ 855	$ 1,822	$ 5,340
Net investment income	537	110	115	762
Fee income	76			76
Other revenues	7	7	18	32
Total operating revenues (1)	$ 3,283	$ 972	$ 1,955	$ 6,210
Operating income (1)	$ 567	$ 172	$ 19	$ 758

(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
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**
2010								
Premiums	$	5,291	$	1,679	$	3,600	$	10,570
Net investment income		1,065		221		229		1,515
Fee income		155						155
Other revenues		13		13		38		64
Total operating revenues (1)	$	6,524	$	1,913	$	3,867	$	12,304
Operating income (1)	$	1,134	$	258	$	78	$	1,470

(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

(in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenue reconciliation				
Earned premiums				
Business Insurance:				
Workers compensation	**$ 712**	$ 605	**$ 1,392**	$ 1,205
Commercial automobile	**480**	471	**953**	942
Property	**401**	423	**802**	846
General liability	**429**	433	**857**	858
Commercial multi-peril	**778**	730	**1,540**	1,440
Other	**2**	1	**3**	
Total Business Insurance	**2,802**	2,663	**5,547**	5,291
Financial, Professional & International Insurance:				
Fidelity and surety	**250**	286	**484**	533
General liability	**216**	222	**424**	448
International	**311**	313	**609**	631
Other	**33**	34	**66**	67
Total Financial, Professional & International Insurance	**810**	855	**1,583**	1,679
Personal Insurance:				
Automobile	**931**	921	**1,846**	1,825
Homeowners and other	**960**	901	**1,898**	1,775
Total Personal Insurance	**1,891**	1,822	**3,744**	3,600
Total earned premiums	**5,503**	5,340	**10,874**	10,570
Net investment income	**758**	762	**1,537**	1,515
Fee income	**74**	76	**148**	155
Other revenues	**34**	32	**68**	64
Total operating revenues for reportable segments	**6,369**	6,210	**12,627**	12,304
Net realized investment gains (losses)	**19**	(31)	**39**	(6)

Total consolidated revenues	**$**	**6,388**	$	6,179	**$**	**12,666**	$	12,298
Income reconciliation, net of tax								
Total operating income (loss) for reportable segments	**$**	**(296)**	$	758	**$**	**598**	$	1,470
Interest Expense and Other (1)		**(81)**		(68)		**(149)**		(149)
Total operating income (loss)		**(377)**		690		**449**		1,321
Net realized investment gains (losses)		**13**		(20)		**26**		(4)
Total consolidated net income (loss)	**$**	**(364)**	$	670	**$**	**475**	$	1,317

(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, 2011 and 2010, and $125 million and $127 million for the six months ended June 30, 2011 and 2010, respectively.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)	June 30, 2011	December 31, 2010
Asset reconciliation:		
Business Insurance	**$ 78,330**	$ 78,165
Financial, Professional & International Insurance	**13,840**	13,461
Personal Insurance	**13,511**	13,423
Total assets for reportable segments	**105,681**	105,049
Other assets (1)	**787**	607
Total consolidated assets	**$ 106,468**	$ 105,656

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

3. INVESTMENTS

Fixed Maturities

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

(at June 30, 2011, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	**$ 2,057**	**$ 89**	**$**	**$ 2,146**
Obligations of states, municipalities and political subdivisions:				
Pre-refunded	**6,603**	**517**	**1**	**7,119**
All other	**30,626**	**1,470**	**35**	**32,061**
	37,229	**1,987**	**36**	**39,180**

Total obligations of states, municipalities and political subdivisions								
Debt securities issued by foreign governments		**1,980**		**52**		**1**		**2,031**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities		**3,529**		**259**		**16**		**3,772**
All other corporate bonds		**14,939**		**913**		**42**		**15,810**
Redeemable preferred stock		**33**		**4**				**37**
Total	**$**	**59,767**	**$**	**3,304**	**$**	**95**	**$**	**62,976**

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Pre-refunded bonds of $7.12 billion and $7.29 billion at June 30, 2011 and December 31, 2010, respectively, were bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest.

Equity Securities

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

(at June 30, 2011, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	**$ 294**	**$ 104**	**$**	**$ 398**
Non-redeemable preferred stock	**167**	**37**	**2**	**202**
Total	**$ 461**	**$ 141**	**$ 2**	**$ 600**

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

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at June 30, 2011 and December 31, 2010, the aggregate fair value and gross unrealized losses by length of time those securities have been continuously in an unrealized loss position.

(at June 30, 2011, in millions)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized	12 months or longer Fair Value	12 months or longer Gross Unrealized	Total Fair Value	Total Gross Unrealized

		Losses		Losses		Losses
Fixed maturities						
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$	$	$	$	$	$
Obligations of states, municipalities and political subdivisions	**2,440**	**30**	**133**	**6**	**2,573**	**36**
Debt securities issued by foreign governments	**221**	**1**			**221**	**1**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**191**	**4**	**167**	**12**	**358**	**16**
All other corporate bonds	**1,517**	**27**	**94**	**15**	**1,611**	**42**
Redeemable preferred stock						
Total fixed maturities	**4,369**	**62**	**394**	**33**	**4,763**	**95**
Equity securities						
Common stock	**44**				**44**	
Non-redeemable preferred stock	**12**		**39**	**2**	**51**	**2**
Total equity securities	**56**		**39**	**2**	**95**	**2**
Total	**$ 4,425**	**$ 62**	**$ 433**	**$ 35**	**$ 4,858**	**$ 97**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(at December 31, 2010, 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	$ 155	$	$	$	$ 155	$
Obligations of states, municipalities and political subdivisions	5,854	149	139	6	5,993	155
Debt securities issued by foreign governments	419	4	13		432	4
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	77	1	420	35	497	36
All other corporate bonds	1,255	32	185	19	1,440	51
Redeemable preferred stock			3		3	
Total fixed maturities	7,760	186	760	60	8,520	246
Equity securities						
Common stock	3		3		6	
Non-redeemable preferred stock	45	1	49	4	94	5
Total equity securities	48	1	52	4	100	5
Total	$ 7,808	$ 187	$ 812	$ 64	$ 8,620	$ 251

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at June 30, 2011, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
(in millions)	3 Months or Less	Greater Than 3 Months, 6 Months or Less	Greater Than 6 Months, 12 Months or Less	Greater Than 12 Months	Total
Fixed maturities					
Mortgage-backed securities	**$ 3**	**$**	**$**	**$**	**$ 3**
Other	**1**	**3**		**10**	**14**

Total fixed maturities		**4**		**3**			**10**	**17**
Equity securities								
Total	**$**	**4**	**$**	**3**	**$**	**$**	**10**	**$** **17**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Impairment Charges

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

(in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Fixed maturities				
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	**$**	$	**$**	$
Obligations of states, municipalities and political subdivisions				
Debt securities issued by foreign governments				
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**2**	1	**4**	2
All other corporate bonds	**1**		**3**	5
Redeemable preferred stock				
Total fixed maturities	**3**	1	**7**	7
Equity securities				
Common stock	**1**	1	**1**	2
Non-redeemable preferred stock				
Total equity securities	**1**	1	**1**	2
Other investments		2		5
Total	**$ 4**	$ 4	**$ 8**	$ 14

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

(for the three months ended June 30, 2011, 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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

(for the six months ended June 30, 2011, in millions)	Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Year	Additions for OTTI Securities Where No Credit Losses Were Previously Recognized	Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized	Reductions Due to Sales/Defaults of Credit-Impaired Securities	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**$ 47**	**$**	**$ 4**	**$**	**$**	**$ 51**
All other corporate bonds	**88**	**1**	**2**	**(1)**	**2**	**92**
Total fixed maturities	**$ 135**	**$ 1**	**$ 6**	**$ (1)**	**$ 2**	**$ 143**

(for the three months ended June 30, 2010, 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	$ 47	$	$ 1	$ (3)	$	$ 45
All other corporate bonds	92			(7)		85
Total fixed maturities	$ 139	$	$ 1	$ (10)	$	$ 130

(for the six months ended June 30, 2010, in millions)	Cumulative OTTI Credit Losses Recognized for Securities Held, Beginning of Year	Additions for OTTI Securities Where No Credit Losses Were Previously Recognized	Additions for OTTI Securities Where Credit Losses Have Been Previously Recognized	Reductions Due to Sales/Defaults of Credit-Impaired Securities	Adjustments to Book Value of Credit-Impaired Securities due to Changes in Cash Flows	Cumulative OTTI Credit Losses Recognized for Securities Still Held, End of Period
Fixed maturities						
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	$ 46	$	$ 2	$ (3)	$	$ 45
All other corporate bonds	93		2	(11)	1	85
Total fixed maturities	$ 139	$	$ 4	$ (14)	$ 1	$ 130

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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 fixed maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

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

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

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

Equities Public Common and Preferred

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

Other Investments

At June 30, 2011 and December 31, 2010, the Company held investments in non-public common and preferred equity securities, with fair value estimates of $71 million and $57 million, respectively, reported in other investments, where the fair value estimate is determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the total fair value estimate for all of these investments at June 30, 2011 and December 31, 2010 in the amount disclosed in Level 3. The Company holds investments in various publicly-traded securities which are reported in other investments. The $43 million and $42 million fair value of these investments at June 30, 2011 and December 31, 2010, respectively, was disclosed in Level 1. These investments include securities in the Company s trading portfolio, mutual funds and other small holdings.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Derivatives

At June 30, 2011 and December 31, 2010, the Company held $30 million and $37 million, respectively, of convertible bonds containing embedded conversion options that are valued separately from the host bond contract in the amount disclosed in Level 2 fixed maturities.

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company s financial assets and financial liabilities are measured on a recurring basis at June 30, 2011 and December 31, 2010.

(at June 30, 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	$ 2,146	$ 2,103	$ 43	$
Obligations of states, municipalities and political subdivisions	39,180		39,159	21
Debt securities issued by foreign governments	2,031		2,031	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	3,772		3,771	1
All other corporate bonds	15,810		15,635	175
Redeemable preferred stock	37	36	1	
Total fixed maturities	62,976	2,139	60,640	197
Equity securities				
Common stock	398	386	12	
Non-redeemable preferred stock	202	134	68	

Total equity securities	**600**	**520**	**80**	
Other investments	**114**	**43**		**71**
Total	**$ 63,690**	**$ 2,702**	**$ 60,720**	**$ 268**

The Company did not have significant transfers between Levels 1 and 2 during the six months ended June 30, 2011.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

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

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

The following tables present the changes in the Level 3 fair value category during the three months and six months ended June 30, 2011 and the twelve months ended December 31, 2010.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Three Months Ended June 30, 2011 (in millions)	**Fixed Maturities**	**Other Investments**	**Total**
Balance at March 31, 2011	$ 170	$ 63	$ 233
Total realized and unrealized investment gains (losses):			
Included in realized investment gains (losses) (1)		3	3
Included in increases (decreases) in accumulated other changes in equity from nonowner sources		8	8
Purchases, sales and settlements/maturities:			
Purchases	47		47
Sales	(12)	(3)	(15)
Settlements/maturities	(5)		(5)
Gross transfers into Level 3			
Gross transfers out of Level 3	(3)		(3)
Balance at June 30, 2011	$ 197	$ 71	$ 268
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 as well as amortization on fixed maturities.

Six Months Ended June 30, 2011 (in millions)	**Fixed Maturities**	**Other Investments**	**Total**
Balance at December 31, 2010	$ 230	$ 57	$ 287
Total realized and unrealized investment gains (losses):			
Included in realized investment gains (losses) (1)		6	6
Included in increases (decreases) in accumulated other changes in equity from nonowner sources		13	13
Purchases, sales and settlements/maturities:			
Purchases	82	2	84
Sales	(12)	(7)	(19)
Settlements/maturities	(21)		(21)
Gross transfers into Level 3	8		8
Gross transfers out of Level 3 (2)	(90)		(90)
Balance at June 30, 2011	$ 197	$ 71	$ 268

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 as well as amortization on fixed maturities.

(2) During the six months ended June 30, 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.

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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, 2010 (in millions)	**Fixed Maturities**	**Other Investments**	**Total**
Balance at December 31, 2009	$ 240	$ 154	$ 394
Total realized and unrealized investment gains (losses):			
Included in realized investment gains (losses) (1)	5	2	7
Included in increases (decreases) in accumulated other changes in equity from nonowner sources	10	11	21
Purchases, sales and settlements/maturities:			
Purchases	44	3	47
Sales	(9)	(113)	(122)
Settlements/maturities	(41)		(41)
Gross transfers into Level 3	13		13
Gross transfers out of Level 3	(32)		(32)
Balance at December 31, 2010	$ 230	$ 57	$ 287
Amount of total realized investment gains (losses) for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	$	$	$

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

The Company had no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the six months ended June 30, 2011 or twelve months ended December 31, 2010.

Financial Instruments Disclosed, But Not Carried, At Fair Value

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

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

The carrying values of $534 million and $647 million of financial instruments classified as other assets approximated their fair values at June 30, 2011 and December 31, 2010, respectively. The carrying values of $3.71 billion and $3.75 billion of financial instruments classified as other liabilities at June 30, 2011 and December 31, 2010, respectively, also approximated their fair values. Fair value is determined using various methods including discounted cash flows, as appropriate for the various financial instruments.

The carrying value and fair value of the Company s debt at June 30, 2011 was $6.60 billion and $7.15 billion, respectively. The respective totals at December 31, 2010 were $6.61 billion and $7.21 billion. The Company utilized a pricing service to estimate fair value measurements for approximately 96% and 94% of its debt, other than commercial paper, at June 30, 2011 and December 31, 2010, respectively. The pricing service utilizes market quotations for debt that have quoted prices in active markets. For the small amount of the Company s debt securities for which a pricing service is not used, the Company utilizes pricing estimates from a nationally recognized broker/dealer to estimate fair value. If estimates of fair value are unavailable from the pricing service or the broker/dealer, the Company produces an estimate of fair value based on internally developed valuation techniques which are based on a discounted cash flow methodology and incorporates all available relevant observable market inputs.

The fair value of commercial paper included in debt outstanding at June 30, 2011 and December 31, 2010 approximated its book value because of its short-term nature.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the carrying amount of the Company s goodwill by segment at June 30, 2011 and December 31, 2010:

(in millions)	June 30, 2011	December 31, 2010
Business Insurance	**$ 2,168**	$ 2,168
Financial, Professional & International Insurance	**557**	557
Personal Insurance	**613**	613
Other	**27**	27
Total	**$ 3,365**	$ 3,365

Other Intangible Assets

The following presents a summary of the Company s other intangible assets by major asset class at June 30, 2011 and December 31, 2010:

(at June 30, 2011, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangibles subject to amortization			
Customer-related	**$ 935**	**$ 808**	**$ 127**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	**191**	**69**	**122**
Total intangible assets subject to amortization	**1,126**	**877**	**249**
Intangible assets not subject to amortization	**216**		**216**
Total other intangible assets	**$ 1,342**	**$ 877**	**$ 465**

(at December 31, 2010, in millions)	Net

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS, Continued

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, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Customer-related	**$ 11**	$ 15	**$ 25**	$ 32
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**6**	6	**12**	13
Total amortization expense	**$ 17**	$ 21	**$ 37**	$ 45

Intangible asset amortization expense is estimated to be $32 million for the remainder of 2011, $52 million in 2012, $45 million in 2013, $43 million in 2014 and $23 million in 2015.

6. 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, catastrophe losses, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions), market conditions and other factors. During the three months and six months ended June 30, 2011, the Company repurchased 3.9 million and 22.8 million shares, respectively, under its share repurchase authorization, for a total cost of approximately $237 million and $1.34 billion, respectively. The average cost per share repurchased was $60.27 and $58.58, respectively. At June 30, 2011, the Company had $5.17 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.

Changes In Equity From Nonowner Sources. The Company s total changes in equity from nonowner sources were as follows:

(in millions, after-tax)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income (loss)	**$ (364)**	$ 670	**$ 475**	$ 1,317
Change in net unrealized gain on investment securities:				
Having no credit losses recognized in the consolidated statement of income (loss)	**429**	422	**369**	476
Having credit losses recognized in the consolidated statement of income (loss)	**(6)**	21	**12**	44
Other changes	**16**	(24)	**75**	(49)
Total changes in equity from nonowner sources	**$ 75**	$ 1,089	**$ 931**	$ 1,788

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

7. 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:

(in millions, except per share amounts)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Basic				
Net income (loss), as reported	**$ (364)**	$ 670	**$ 475**	$ 1,317
Preferred stock dividends			**(1)**	(1)
Participating share-based awards allocated income	**(2)**	(5)	**(4)**	(10)
Net income (loss) available to common shareholders basic	**$ (366)**	$ 665	**$ 470**	$ 1,306
Diluted				
Net income (loss) available to common shareholders	**$ (366)**	$ 665	**$ 470**	$ 1,306
Effect of dilutive securities:				
Convertible preferred stock			**1**	1
Net income (loss) available to common shareholders diluted	**$ (366)**	$ 665	**$ 471**	$ 1,307
Common shares				
Basic				
Weighted average shares outstanding	**418.6**	484.5	**423.3**	496.3
Diluted				
Weighted average shares outstanding	**418.6**	484.5	**423.3**	496.3
Weighted average effects of dilutive securities:				
Stock options and performance shares		4.5	**4.4**	4.5
Convertible preferred stock		1.8	**1.4**	1.8
Total	**418.6**	490.8	**429.1**	502.6
Net Income (Loss) per Common Share				
Basic	**$ (0.88)**	$ 1.37	**$ 1.11**	$ 2.63
Diluted	**$ (0.88)**	$ 1.35	**$ 1.10**	$ 2.60

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.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

8. SHARE-BASED INCENTIVE COMPENSATION

The following presents information for fully vested stock option awards at June 30, 2011:

Stock Options	Number		Weighted Average Exercise Price	Weighted Average Contractual Life Remaining		Aggregate Intrinsic Value ($ in millions)
Vested at end of period (1)	**13,433,507**	**$**	**46.38**	**4.6 years**	**$**	**163**
Exercisable at end of period	**9,646,852**	**$**	**44.68**	**3.6 years**	**$**	**132**

(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 $30 million and $29 million for the three months ended June 30, 2011 and 2010, respectively, and $67 million and $71 million for the six months ended June 30, 2011 and 2010, 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, 2011 and 2010, and $23 million and $25 million for the six months ended June 30, 2011 and 2010, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at June 30, 2011 was $164 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, 2010 was $112 million, which was expected to be recognized over a weighted-average period of 1.7 years.

9. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

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

(for the three months ended June 30, in millions)	Pension Plans 2011	Pension Plans 2010	Postretirement Benefit Plans 2011	Postretirement Benefit Plans 2010
Net Periodic Benefit Cost:				
Service cost	**$ 24**	$ 24	**$**	$
Interest cost on benefit obligation	**34**	32	**4**	3
Expected return on plan assets	**(45)**	(46)	**(1)**	
Amortization of unrecognized:				
Prior service benefit		(1)		
Net actuarial loss	**19**	15		
Net benefit expense	**$ 32**	$ 24	**$ 3**	$ 3

(for the six months ended June 30, in millions)	Pension Plans 2011	Pension Plans 2010	Postretirement Benefit Plans 2011	Postretirement Benefit Plans 2010
Net Periodic Benefit Cost:				
Service cost	**$ 49**	$ 48	**$**	$
Interest cost on benefit obligation	**68**	64	**7**	7
Expected return on plan assets	**(91)**	(92)	**(1)**	
Amortization of unrecognized:				
Prior service benefit		(2)		
Net actuarial loss	**38**	30		
Net benefit expense	**$ 64**	$ 48	**$ 6**	$ 7

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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

10. 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. The appeals are pending.

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

10. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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. The settlement, under which the Company agreed to pay $6.75 million, is subject to court approval. Preliminary approval of the settlement was granted on June 27, 2011, and a final fairness hearing is scheduled for September 14, 2011.

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 Contingency

On August 20, 2010, in a reinsurance dispute in New York state court captioned *United States Fidelity & Guaranty Company v. American Re-Insurance Company, et al.*, the trial court granted summary judgment for the Company, and on October 25, 2010, entered judgment awarding the Company $251 million plus pre-judgment interest in the amount of $169 million. United States Fidelity and Guaranty Company is a subsidiary of the Company. The $251 million awarded by the court represents the amount owed to the Company under the terms of the reinsurance agreements and is reported as part of reinsurance recoverables in the Company s consolidated balance sheet. The interest awarded by the Court is treated for

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

10. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

accounting purposes as a gain contingency in accordance with FASB Topic 450, *Contingencies,* and accordingly has not been recognized in the Company s consolidated financial statements. Post-judgment interest continues to accrue at the rate of 9 percent (without compounding) on the total judgment of $420 million. The judgment, including the award of interest, was appealed to the New York Supreme Court, Appellate Division, First Department, and oral argument occurred on May 10, 2011. The parties await a ruling from the Appellate Division.

Commitments

Investment Commitments The Company has unfunded commitments to private equity limited partnerships and real estate partnerships in which it invests. These commitments totaled $1.24 billion and $1.26 billion at June 30, 2011 and December 31, 2010, respectively.

Guarantees

The Company has contingent obligations for guarantees related to letters of credit, issuance of debt securities, certain investments, third-party loans related to certain investments, certain insurance policy obligations of former insurance subsidiaries, and various indemnifications, including those related to the sale of business entities. The Company also provides standard indemnifications to service providers in the normal course of business. The indemnification clauses are often standard contractual terms. Certain of these guarantees and indemnifications have no stated or notional amounts or limitation to the maximum potential future payments, and, accordingly, the Company is unable to develop an estimate of the maximum potential payments for such arrangements. At June 30, 2011, the maximum amount of the Company s obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was $84 million, approximately $40 million of which 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, all of which is indemnified by a third party.

In the ordinary course of selling business entities to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the business entities being sold, covenants and obligations of the Company and/or its subsidiaries following the closing, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development, imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, or certain named litigation. Such indemnification provisions generally survive for periods ranging from two years following the applicable closing date to the expiration of the relevant statutes of limitations, although, in some cases, there may be other agreed upon term limitations or no term limitations. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. The maximum amount of the Company s contingent obligation for indemnifications related to the sale of business entities that are quantifiable was $1.35 billion at June 30, 2011, of which $10 million was recognized on the balance sheet at that date.

11. 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, 2011.

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

11. 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 changes in equity from nonowner sources		(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

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended June 30, 2010

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,610	$ 1,730	$	$	$ 5,340
Net investment income	517	242	3		762
Fee income	76				76
Net realized investment gains (losses)	8	(25)	(14)		(31)
Other revenues	27	5			32
Total revenues	4,238	1,952	(11)		6,179
Claims and expenses					
Claims and claim adjustment expenses	2,277	1,142			3,419
Amortization of deferred acquisition costs	629	321			950
General and administrative expenses	566	264	2		832
Interest expense	19		78		97
Total claims and expenses	3,491	1,727	80		5,298
Income (loss) before income taxes	747	225	(91)		881
Income tax expense (benefit)	176	66	(31)		211
Equity in net income of subsidiaries			730	(730)	
Net income	$ 571	$ 159	$ 670	$ (730)	$ 670

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

Other net realized investment gains (losses)	10	(23)	(14)		(27)
Net realized investment gains (losses)	$ 8	$ (25)	$ (14)	$	$ (31)

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(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

11. 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 changes in equity from nonowner sources	(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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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the six months ended June 30, 2010

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 7,133	$ 3,437	$	$	$ 10,570
Net investment income	1,036	473	6		1,515
Fee income	155				155
Net realized investment gains (losses)	29	(11)	(24)		(6)
Other revenues	55	9			64
Total revenues	8,408	3,908	(18)		12,298
Claims and expenses					
Claims and claim adjustment expenses	4,502	2,305			6,807
Amortization of deferred acquisition costs	1,245	634			1,879
General and administrative expenses	1,140	531	8		1,679
Interest expense	37		158		195
Total claims and expenses	6,924	3,470	166		10,560
Income (loss) before income taxes	1,484	438	(184)		1,738
Income tax expense (benefit)	347	115	(41)		421
Equity in net income of subsidiaries			1,460	(1,460)	
Net income	$ 1,137	$ 323	$ 1,317	$ (1,460)	$ 1,317

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total gains (losses)	$ 5	$ (4)	$	$	$ 1
Non-credit component of impairments recognized in accumulated other changes in equity from nonowner sources	(10)	(5)			(15)

Other-than-temporary impairment losses	(5)	(9)			(14)
Other net realized investment gains (losses)	34	(2)	(24)		8
Net realized investment gains (losses)	$ 29	$ (11)	$ (24)	$	$ (6)

(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

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At June 30, 2011

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (including $94 subject to securities lending) (amortized cost $59,767)	$ 42,712	$ 20,243	$ 21	$	$ 62,976
Equity securities, available for sale, at fair value (cost $461)	214	287	99		600
Real estate	33	821			854
Short-term securities	1,704	941	2,379		5,024
Other investments	2,526	1,012	1		3,539
Total investments	47,189	23,304	2,500		72,993
Cash	85	186	2		273
Investment income accrued	519	249			768
Premiums receivable	4,037	2,006			6,043
Reinsurance recoverables	7,801	3,979			11,780
Ceded unearned premiums	596	206			802
Deferred acquisition costs	1,568	272			1,840
Deferred tax asset	14	86	28		128
Contractholder receivables	4,073	1,297			5,370
Goodwill	2,411	954			3,365
Other intangible assets	312	153			465
Investment in subsidiaries			27,998	(27,998)	
Other assets	2,252	58	379	(48)	2,641
Total assets	$ 70,857	$ 32,750	$ 30,907	$ (28,046)	$ 106,468
Liabilities					
Claims and claim adjustment expense reserves	$ 34,427	$ 18,169	$	$	$ 52,596
Unearned premium reserves	7,704	3,635			11,339
Contractholder payables	4,073	1,297			5,370
Payables for reinsurance premiums	204	205			409

Debt		1,190				5,462		(48)		6,604
Other liabilities		3,982		712		448				5,142
Total liabilities		51,580		24,018		5,910		(48)		81,460
Shareholders equity										
Common stock (1,748.6 shares authorized; 419.5 shares issued and outstanding)				390		20,607		(390)		20,607
Additional paid-in capital		11,135		7,016				(18,151)		
Retained earnings		6,600		620		18,955		(7,209)		18,966
Accumulated other changes in equity from nonowner sources		1,542		706		1,711		(2,248)		1,711
Treasury stock, at cost (320.8 shares)						(16,276)				(16,276)
Total shareholders equity		19,277		8,732		24,997		(27,998)		25,008
Total liabilities and shareholders equity	$	70,857	$	32,750	$	30,907	$	(28,046)	$	106,468

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. CONSOLIDATING FINANCIAL STATEMENTS OF THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES (Continued)

CONSOLIDATING BALANCE SHEET (Unaudited)

At December 31, 2010

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (including $186 subject to securities lending) (amortized cost $60,170)	$ 42,415	$ 20,385	$ 20	$	$ 62,820
Equity securities, available for sale, at fair value (cost $372)	190	263	66		519
Real estate	1	837			838
Short-term securities	1,596	436	3,584		5,616
Other investments	1,982	946	1		2,929
Total investments	46,184	22,867	3,671		72,722
Cash	86	110	4		200
Investment income accrued	532	259			791
Premiums receivable	3,691	1,806			5,497
Reinsurance recoverables	7,868	4,126			11,994
Ceded unearned premiums	648	165			813
Deferred acquisition costs	1,511	271			1,782
Deferred tax asset	294	125	74		493
Contractholder receivables	4,050	1,293			5,343
Goodwill	2,411	954			3,365
Other intangible assets	326	176			502
Investment in subsidiaries			27,422	(27,422)	
Other assets	1,904	237	60	(47)	2,154
Total assets	$ 69,505	$ 32,389	$ 31,231	$ (27,469)	$ 105,656
Liabilities					
Claims and claim adjustment expense reserves	$ 33,770	$ 17,836	$	$	$ 51,606
Unearned premium reserves	7,478	3,443			10,921
Contractholder payables	4,050	1,293			5,343
Payables for reinsurance premiums	214	193			407

Debt	1,189	9	5,460	(47)	6,611
Other liabilities	3,906	1,089	298		5,293
Total liabilities	50,607	23,863	5,758	(47)	80,181
Shareholders equity					
Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)			68		68
Common stock (1,748.6 shares authorized; 434.6 shares issued and outstanding)		390	20,162	(390)	20,162
Additional paid-in capital	11,135	7,016		(18,151)	
Retained earnings	6,489	576	18,845	(7,063)	18,847
Accumulated other changes in equity from nonowner sources	1,274	544	1,255	(1,818)	1,255
Treasury stock, at cost (296.6 shares)			(14,857)		(14,857)
Total shareholders equity	18,898	8,526	25,473	(27,422)	25,475
Total liabilities and shareholders equity	$ 69,505	$ 32,389	$ 31,231	$ (27,469)	$ 105,656

(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

11. 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	(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)
			(46)		(46)

Treasury shares acquired net employee share-based compensation					
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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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

For the six months ended June 30, 2010

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Cash flows from operating activities					
Net income	$ 1,137	$ 323	$ 1,317	$ (1,460)	$ 1,317
Net adjustments to reconcile net income to net cash provided by operating activities	(164)	(494)	2,434	(2,042)	(266)
Net cash provided by (used in) operating activities	973	(171)	3,751	(3,502)	1,051
Cash flows from investing activities					
Proceeds from maturities of fixed maturities	1,540	928	10		2,478
Proceeds from sales of investments:					
Fixed maturities	1,647	1,134			2,781
Equity securities	19	8			27
Real estate		10			10
Other investments	136	53			189
Purchases of investments:					
Fixed maturities	(2,432)	(1,508)			(3,940)
Equity securities	(1)	(18)			(19)
Real estate		(8)			(8)
Other investments	(133)	(94)			(227)
Net sales (purchases) of short-term securities	1,147	432	(529)		1,050
Securities transactions in course of settlement	6	(4)			2
Other	(143)	(2)			(145)
Net cash provided by (used in) investing activities	1,786	931	(519)		2,198
Cash flows from financing activities					
Payment of debt			(250)		(250)
Dividends paid to shareholders			(343)		(343)
Issuance of common stock employee share options			199		199
			(2,804)		(2,804)

Treasury shares acquired share repurchase authorization					
Treasury shares acquired net employee share-based compensation			(40)		(40)
Excess tax benefits from share-based payment arrangements			5		5
Dividends paid to parent company	(2,782)	(721)		3,503	
Capital contributions and loans between subsidiaries			1	(1)	
Net cash used in financing activities	(2,782)	(721)	(3,232)	3,502	(3,233)
Effect of exchange rate changes on cash		(5)			(5)
Net increase (decrease) in cash	(23)	34			11
Cash at beginning of year	132	122	1		255
Cash at end of period	$ 109	$ 156	$ 1	$	$ 266
Supplemental disclosure of cash flow information					
Income taxes paid (received)	$ 235	$ 119	$ (45)	$	$ 309
Interest paid	$ 36	$	$ 164	$	$ 200

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

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

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

FINANCIAL HIGHLIGHTS

2011 Second Quarter Consolidated Results of Operations

- Net loss of ($364) million, or ($0.88) per share basic and diluted
- Net earned premiums of $5.50 billion
- Catastrophe losses of $1.67 billion ($1.08 billion after-tax)
- Net favorable prior year reserve development of $168 million ($111 million after-tax)
- GAAP combined ratio of 125.0%
- Net investment income of $758 million ($606 million after-tax)
- Net realized investment gains of $19 million ($13 million after-tax)

2011 Second Quarter Consolidated Financial Condition

- Total investments of $72.99 billion; fixed maturities and short-term securities comprised 93% of total investments
- Total assets of $106.47 billion
- Total debt of $6.60 billion, resulting in a debt-to-total capital ratio of 20.9% (22.5% excluding net unrealized investment gains, net of tax)
- Repurchased 3.9 million common shares for total cost of $237 million under share repurchase authorization
- Shareholders equity of $25.01 billion; book value per common share of $59.62, up 7% from June 30, 2010

- Holding company liquidity of $2.43 billion

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CONSOLIDATED OVERVIEW

Consolidated Results of Operations

(in millions, except ratio and per share amounts)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues				
Premiums	**$ 5,503**	$ 5,340	**$ 10,874**	$ 10,570
Net investment income	**758**	762	**1,537**	1,515
Fee income	**74**	76	**148**	155
Net realized investment gains (losses)	**19**	(31)	**39**	(6)
Other revenues	**34**	32	**68**	64
Total revenues	**6,388**	6,179	**12,666**	12,298
Claims and expenses				
Claims and claim adjustment expenses	**5,141**	3,419	**8,523**	6,807
Amortization of deferred acquisition costs	**970**	950	**1,918**	1,879
General and administrative expenses	**907**	832	**1,790**	1,679
Interest expense	**97**	97	**193**	195
Total claims and expenses	**7,115**	5,298	**12,424**	10,560
Income (loss) before income taxes	**(727)**	881	**242**	1,738
Income tax expense (benefit)	**(363)**	211	**(233)**	421
Net income (loss)	**$ (364)**	$ 670	**$ 475**	$ 1,317
Net income (loss) per share				
Basic	**$ (0.88)**	$ 1.37	**$ 1.11**	$ 2.63
Diluted	**$ (0.88)**	$ 1.35	**$ 1.10**	$ 2.60
GAAP combined ratio				
Loss and loss adjustment expense ratio	**92.6%**	63.3%	**77.6%**	63.6%
Underwriting expense ratio	**32.4**	31.9	**32.5**	32.2
GAAP combined ratio	**125.0%**	95.2%	**110.1%**	95.8%
Incremental impact of direct to consumer initiative on GAAP combined ratio	**0.9%**	0.6%	**1.0%**	0.6%

The Company s discussions of net income (loss) and segment operating income (loss) included in the following discussion 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 loss per share in the second quarter of 2011 was ($0.88), compared with diluted net income per share of $1.35 in the same period of 2010. The net loss in the second quarter of 2011 was ($364) million, compared with net income of $670 million in the same period of 2010. The net loss in the second quarter of 2011 primarily reflected the impact of a significant increase in catastrophe losses, lower net favorable prior year reserve development, and modest declines in underwriting margins excluding catastrophe losses and prior year reserve development (underlying underwriting margins), partially offset by net realized investment gains (compared with net realized investment losses in the second quarter of 2010). The decline in underlying underwriting margins reflected increases in losses excluding catastrophe losses and prior year reserve development (underlying losses) that modestly outpaced earned rate increases in the

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Business Insurance segment (including the unfavorable re-estimation of certain first quarter 2011 losses), increases in non-catastrophe weather-related losses (some of which related to first quarter 2011 storms) and fire-related losses in the Personal Insurance segment and increases in general and administrative expenses in each business segment.

Catastrophe losses in the second quarter of 2011 were the result of unusually frequent and severe tornadoes and hail storms that caused extensive damage in several major urban areas, primarily in the Midwest and Southeast regions of the United States, the largest of which occurred in the last week of April and impacted 13 states.

In the first six months of 2011, diluted net income per share of $1.10 decreased by 58% from the same period of 2010, whereas net income of $475 million decreased by 64% from the same period of 2010. The lower rate of decrease in diluted net income per share reflected the impact of common share repurchases over the previous twelve months. The decrease in net income primarily reflected the impact of a significant increase in catastrophe losses, lower net favorable prior year reserve development and modest declines in underlying underwriting margins as described above. These decreases were partially offset by net realized investment gains in the first six months of 2011 (compared with net realized investment losses in the same period of 2010) and a modest increase in net investment income. 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 2011 totaled $5.50 billion, an increase of $163 million, or 3%, over the same period of 2010. Through the first six months of 2011, earned premiums totaled $10.87 billion, an increase of $304 million, or 3%, over the same period of 2010. In the Business Insurance segment, earned premiums in each of the second quarter and first six months of 2011 increased by 5% over the same periods of 2010. In the Financial, Professional & International Insurance segment, earned premiums in the second quarter and first six months of 2011 decreased by 5% and 6%, respectively, from the same 2010 periods. In the Personal Insurance segment, earned premiums in each of the second quarter and first six months of 2011 increased by 4% over the same periods of 2010. 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, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Average investments (a)	**$ 70,476**	$ 71,294	**$ 70,659**	$ 71,987
Pretax net investment income	**758**	762	**1,537**	1,515
After-tax net investment income	**606**	617	**1,228**	1,227
Average pretax yield (b)	**4.3%**	4.3%	**4.4%**	4.2%

Average after-tax yield (b)	**3.4%**	3.5%	**3.5%**	3.4%

(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 of $758 million in the second quarter of 2011 was $4 million, or 1%, lower than in the same period of 2010. Net investment income from fixed maturity investments in the second quarter of 2011 of $634 million declined by $44 million compared with the same period of 2010, primarily resulting from lower average levels of long-term fixed maturity invested assets due to the Company s common share repurchases, as well as lower long-term reinvestment yields available in the market. Net investment income generated by non-fixed maturity investments in the second quarter of 2011 of $129 million was $40 million higher than in the same period of 2010, primarily due to improved investment market conditions. In the first six months of 2011, net investment income of $1.54 billion was $22 million, or 1%, higher than in the same period of 2010, despite lower average investments. Net investment income generated by non-fixed maturity investments in the first six months of 2011 of $269 million was $114 million higher than in the same period of 2010, due to improved investment market conditions. Net investment income from fixed maturity investments in the first six months of 2011 of $1.28 billion declined $93 million compared with the same period of 2010, primarily reflecting the same factors discussed above.

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Fee Income

The National Accounts market in the Business Insurance segment is the primary source of the Company s fee-based business. The $2 million and $7 million decreases in fee income in the second quarter and first six months of 2011, respectively, compared with the same periods of 2010 are described in the Business Insurance segment discussion that follows.

Net Realized Investment Gains (Losses)

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

(in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net Realized Investment Gains (Losses)				
Other-than-temporary impairment losses:				
Total gains	**$ 5**	$ 2	**$ 7**	$ 1
Non-credit component of impairments recognized in accumulated other changes in equity from nonowner sources	**(9)**	(6)	**(15)**	(15)
Other-than-temporary impairment losses	**(4)**	(4)	**(8)**	(14)
Other net realized investment gains (losses)	**23**	(27)	**47**	8
Net realized investment gains (losses)	**$ 19**	$ (31)	**$ 39**	$ (6)

Other Revenues

Other revenues in the second quarter and first six months of both 2011 and 2010 primarily consisted of premium installment charges.

Claims and Expenses

Claims and Claim Adjustment Expenses

Claims and claim adjustment expenses of $5.14 billion in the second quarter of 2011 were $1.72 billion, or 50%, higher than in the same period of 2010, primarily reflecting the significant increase in catastrophe losses, a decrease in net favorable prior year reserve development and the impact of increased underlying losses. The increase in underlying losses included the unfavorable re-estimation of certain first quarter 2011 losses in the Business Insurance segment, as well as increases in non-catastrophe weather-related losses (some of which related to first quarter 2011 storms) and fire-related losses in the Personal Insurance segment. Catastrophe losses in the second quarters of 2011 and 2010 totaled $1.67 billion and $439 million, respectively. Catastrophe losses in the second quarter of 2011 were the result of multiple tornadoes and hail storms, primarily in the Midwest and Southeast regions of the United States, the largest of which occurred in the last week of April and impacted 13 states. Catastrophe losses in the second quarter of 2010 primarily resulted from numerous wind and hail storms throughout the United States. Net favorable prior year reserve development in the second quarters of 2011 and 2010 totaled $168 million and $384 million, respectively.

In the first six months of 2011, claims and claim adjustment expenses totaled $8.52 billion, an increase of $1.72 billion, or 25%, over the total in the same period of 2010, primarily reflecting the same factors described above. Catastrophe losses in the first six months of 2011 and 2010 totaled $1.85 billion and $910 million, respectively. Catastrophe losses in the first six months of both 2011 and 2010 primarily resulted from numerous tornadoes and hail storms in the second quarter of each year, as well as wind and hail storms and severe winter storms throughout the United States in the first quarter of each year. The 2010 year-to-date total also included losses from an earthquake in Chile. Net favorable prior year reserve development in the first six months of 2011 and 2010 totaled $405 million and $678 million, respectively.

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The Company s three business segments each experienced net favorable prior year reserve development in the second quarter and first six months of both 2011 and 2010. 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 totaled $970 million in the second quarter of 2011, 2% higher than in the same period of 2010. In the first six months of 2011, the amortization of deferred acquisition costs totaled $1.92 billion, 2% higher than in the same 2010 period. The increases in both periods of 2011 were consistent with the increases in earned premiums.

General and Administrative Expenses

General and administrative expenses totaled $907 million in the second quarter of 2011, an increase of $75 million, or 9%, over the same period of 2010. In the first six months of 2011, general and administrative expenses totaled $1.79 billion, an increase of $111 million, or 7%, over the same 2010 period. The increases in both periods of 2011 were primarily due to a higher level of state assessment expenses in the Business Insurance segment, increases in employee- and technology-related costs to enhance operations and support future business growth in the Financial, Professional & International Insurance segment, and advertising and other costs associated with the Company s direct to consumer initiative in the Personal Insurance segment.

Interest Expense

Interest expense of $97 million in the second quarter of 2011 was level with the same period of 2010. In the first six months of 2011, interest expense of $193 million was $2 million lower than in the same period of 2010.

Income Taxes. The Company s income tax benefits of $363 million in the second quarter of 2011 and $233 million in the first six months of 2011 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 125.0% in the second quarter of 2011 was 29.8 points higher than the consolidated GAAP combined ratio of 95.2% in the same period of 2010. The GAAP combined ratio of 110.1% in the first six months of 2011 was 14.3 points higher than the GAAP combined ratio of 95.8% in the same period of 2010.

The consolidated loss and loss adjustment expense ratio of 92.6% in the second quarter of 2011 was 29.3 points higher than in the same period of 2010. Catastrophe losses in the second quarters of 2011 and 2010 accounted for 30.3 points and 8.2 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in the second quarters of 2011 and 2010 provided 3.1 point and 7.2 point benefits, respectively, to the loss and loss adjustment expense ratio. The 2011 second quarter loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development was 3.1 points higher than the 2010 ratio on the same basis, primarily reflecting the impact of reduced underlying underwriting margins as described above.

The consolidated loss and loss adjustment expense ratio of 77.6% in the first six months of 2011 was 14.0 points higher than in the same period of 2010. Catastrophe losses in the first six months of 2011 and 2010 accounted for 17.1 points and 8.6 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in the first six months of 2011 and 2010 provided 3.7 point and 6.4 point benefits, respectively, to the loss and loss adjustment expense ratio. The 2011 loss and loss adjustment expense ratio in the first six months of 2011 excluding catastrophe losses and prior year reserve development was 2.8 points higher than the 2010 ratio on the same basis, primarily reflecting the same factors discussed above.

The consolidated underwriting expense ratio of 32.4% for the second quarter of 2011 was 0.5 points higher than the second quarter 2010 underwriting expense ratio of 31.9%. In the first six months of 2011, the underwriting expense ratio of 32.5% was 0.3 points higher than the underwriting expense ratio of 32.2% in the same 2010 period. The increase in both periods of 2011 primarily reflected the increase in general and administrative expenses discussed in the segment discussions that follow.

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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)	2011	2010	2011	2010
Business Insurance	**$ 3,094**	$ 2,996	**$ 6,400**	$ 6,114
Financial, Professional & International Insurance	**910**	915	**1,720**	1,813
Personal Insurance	**2,120**	2,063	**3,965**	3,850
Total	**$ 6,124**	$ 5,974	**$ 12,085**	$ 11,777

	Net Written Premiums			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2011	2010	2011	2010
Business Insurance	**$ 2,879**	$ 2,795	**$ 5,899**	$ 5,629
Financial, Professional & International Insurance	**879**	889	**1,503**	1,570
Personal Insurance	**2,059**	2,004	**3,852**	3,740
Total	**$ 5,817**	$ 5,688	**$ 11,254**	$ 10,939

Gross and net written premiums in the second quarter of 2011 increased by 3% and 2%, respectively, over the same period of 2010. In the first six months of 2011, gross and net written premiums both increased by 3% over the same period of 2010. 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,		Six Months Ended June 30,	
(dollars in millions)	2011	2010	2011	2010
Revenues				

Earned premiums	**$**	**2,802**	$	2,663	**$**	**5,547**	$	5,291
Net investment income		**541**		537		**1,097**		1,065
Fee income		**74**		76		**148**		155
Other revenues		**10**		7		**19**		13
Total revenues	**$**	**3,427**	$	3,283	**$**	**6,811**	$	6,524
Total claims and expenses	**$**	**3,528**	$	2,529	**$**	**6,218**	$	5,018
Operating income	**$**	**11**	$	567	**$**	**615**	$	1,134
Loss and loss adjustment expense ratio		**90.6%**		59.5%		**77.0%**		59.1%
Underwriting expense ratio		**32.3**		32.3		**32.0**		32.5
GAAP combined ratio		**122.9%**		91.8%		**109.0%**		91.6%

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Overview

Operating income of $11 million in the second quarter of 2011 was $556 million, or 98%, lower than operating income of $567 million in the same period of 2010. The decline was driven by a significant increase in catastrophe losses, a reduction in net favorable prior year reserve development and reduced underlying underwriting margins that reflected increases in underlying losses that modestly outpaced earned rate increases (including the unfavorable re-estimation of certain first quarter 2011 losses). Catastrophe losses in the second quarter of 2011 totaled $697 million, compared with $179 million in the same period of 2010. Net favorable prior year reserve development totaled $27 million in the second quarter of 2011, compared with $303 million in the same 2010 period.

In the first six months of 2011, operating income of $615 million was $519 million, or 46%, lower than operating income of $1.13 billion in the same period of 2010, primarily reflecting the same factors described above, partially offset by a $76 million benefit resulting from the favorable resolution of various prior year tax matters. Catastrophe losses in the first six months of 2011 totaled $809 million, compared with $314 million in the same period of 2010. Net favorable prior year reserve development totaled $170 million in the first six months of 2011, compared with $545 million in the same 2010 period.

Earned Premiums

Earned premiums of $2.80 billion in the second quarter of 2011 increased by $139 million, or 5%, over the same period of 2010. In the first six months of 2011, earned premiums of $5.55 billion increased by $256 million, or 5%, over the same period of 2010. The increases in both periods of 2011 primarily reflected the impact of an increase in net written premiums over the preceding twelve months. Earned premiums also benefited from positive audit premium adjustments related to increased insured exposures for existing policyholders, compared with negative audit premium adjustments in the same periods of 2010 related to decreased insured exposures for existing policyholders.

Net Investment Income

Net investment income of $541 million in the second quarter of 2011 increased by $4 million, or 1%, over the same 2010 period. In the first six months of 2011, net investment income of $1.10 billion increased by $32 million, or 3%, over the same period of 2010. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the changes in the Company s consolidated net investment income in the second quarter and first six months of 2011 compared with the same periods of 2010. In addition, refer to note 2 of notes to the Company s consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of the Company s net investment income allocation methodology.

Fee Income

National Accounts is the primary source of fee income due to its service businesses, which include claim and loss prevention services to large companies that choose to self-insure a portion of their insurance risks, as well as claims and policy management services to workers compensation residual market pools. Fee income in the second quarter and first six months of 2011 decreased by $2 million and $7 million from the respective periods of 2010.

Claims and Expenses

Claim and Claims Adjustment Expenses

Claims and claim adjustment expenses of $2.58 billion in the second quarter of 2011 were $958 million, or 59%, higher than in the same period of 2010, primarily reflecting a significant increase in catastrophe losses, a decline in net favorable prior year reserve development as well as the impact of an increase in underlying losses that included the unfavorable re-estimation of certain first quarter 2011 losses. Catastrophe losses in the second quarter of 2011 totaled $697 million, compared with $179 million in the same period of 2010. Catastrophe losses in the second quarters of both 2011 and 2010 resulted from severe wind and hail storms throughout the United States. Net favorable prior year reserve development in the second quarter of 2011 totaled $27 million, compared with $303 million in the respective period of 2010. The net favorable prior year reserve development in the second quarter of 2011 was driven by better than expected loss development in the general liability product line, which was concentrated in excess coverages for accident years 2008 and prior and reflected what the Company believes are favorable legal and judicial environments, partially offset by a $76 million increase to environmental reserves, which is discussed in further detail in the Environmental Claims and Litigation section herein.

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Net favorable prior year reserve development in the second quarter of 2010 was driven by better than expected loss results in the property, workers compensation and commercial automobile product lines for recent accident years. In addition, better than expected loss results in this segment in recent years resulted in a favorable re-estimation of reserves for unallocated loss adjustment expenses in the second quarter of 2010. The property product line improvement primarily occurred in the 2009 accident year as a result of better than expected claim emergence trends in the Industry-Focused Underwriting and Target Risk Underwriting groups. Net favorable prior year reserve development in the workers compensation product line was concentrated in the 2006-2009 accident years and resulted from lower than expected claim frequency for the 2009 accident year and better than expected loss emergence for the prior periods. The Company believes that the improvement in the commercial automobile product line, which occurred primarily in the 2009 accident year, resulted from the economic downturn causing fewer vehicles to be on the road and driving fewer miles, leading to lower than expected frequency and severity of losses. The net favorable prior year reserve development in these product lines was partially offset by a $35 million increase to environmental reserves recorded in the second quarter of 2010, which is discussed in further detail in the Environmental Claims and Litigation section herein.

Claims and claim adjustment expenses in the first six months of 2011 totaled $4.35 billion, $1.15 billion, or 36%, higher than in the same 2010 period. The increase primarily reflected the same factors discussed above. Catastrophe losses in the first six months of 2011 totaled $809 million, compared with $314 million in the same period of 2010. Net favorable prior year reserve development in the first six months of 2011 totaled $170 million, compared with $545 million in the same period of 2010. Net favorable prior year reserve development in the first six months of 2011 was driven by the same factors described above, as well as net favorable prior year reserve development in the property product line that reflected better than expected loss development for the 2010 accident year in the Inland Marine business unit in Target Risk Underwriting.

Net favorable prior year reserve development in the first six months of 2010 was driven by the same factors described above for the second quarter of 2010.

Amortization of Deferred Acquisition Costs

The amortization of deferred acquisition costs totaled $457 million in the second quarter of 2011, 4% higher than in the same period of 2010. In the first six months of 2011, the amortization of deferred acquisition costs totaled $901 million, also 4% higher than in the same 2010 period. The increases in both periods of 2011 were consistent with the increases in earned premiums.

General and Administrative Expenses

General and administrative expenses in the second quarter of 2011 totaled $492 million, $23 million, or 5%, higher than in the same period of 2010. In the first six months of 2011, general and administrative expenses of $965 million were $15 million, or 2%, higher than in the same period of 2010. The increases in both periods of 2011 were primarily driven by higher level of state assessment expenses related to workers compensation business in New York.

GAAP Combined Ratio

The GAAP combined ratio of 122.9% in the second quarter of 2011 was 31.1 points higher than the GAAP combined ratio of 91.8% in the same period of 2010. The GAAP combined ratio of 109.0% in the first six months of 2011 was 17.4 points higher than the GAAP combined ratio of 91.6% in the same period of 2010.

The loss and loss adjustment expense ratio of 90.6% in the second quarter of 2011 was 31.1 points higher than in the same period of 2010. Catastrophe losses in the second quarters of 2011 and 2010 accounted for 24.9 points and 6.7 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in the second quarters of 2011 and 2010 provided 1.0 point and 11.3 point benefits, respectively, to the loss and loss adjustment expense ratio. The 2011 second quarter loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development was 2.6 points higher than the 2010 ratio on the same basis, reflecting the impact of reduced underlying underwriting margins as described above.

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The loss and loss adjustment expense ratio of 77.0% in the first six months of 2011 was 17.9 points higher than in the same period of 2010. Catastrophe losses in the first six months of 2011 and 2010 accounted for 14.6 points and 6.0 points, respectively, of the loss and loss adjustment expense ratio. Net favorable prior year reserve development in the first six months of 2011 and 2010 provided 3.1 point and 10.3 point benefits, respectively, to the loss and loss adjustment expense ratio. The 2011 loss and loss adjustment expense ratio in the first six months of 2011 excluding catastrophe losses and prior year reserve development was 2.1 points higher than the 2010 ratio on the same basis, reflecting the same factors discussed above.

The underwriting expense ratio of 32.3% for the second quarter of 2011 was level with the second quarter 2010 underwriting expense ratio. In the first six months of 2011, the underwriting expense ratio of 32.0% was 0.5 points lower than the underwriting expense ratio of 32.5% in the same 2010 period. The decrease in the first six months of 2011 primarily reflected the impact of higher earned premiums.

Written Premiums

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

	Gross Written Premiums							
	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)		**2011**		**2010**		**2011**		**2010**
Select Accounts	**$**	**743**	$	720	**$**	**1,481**	$	1,430
Commercial Accounts		**689**		614		**1,556**		1,364
National Accounts		**253**		250		**569**		577
Industry-Focused Underwriting		**588**		588		**1,254**		1,203
Target Risk Underwriting		**577**		572		**1,082**		1,073
Specialized Distribution		**246**		247		**455**		463
Total Business Insurance Core		**3,096**		2,991		**6,397**		6,110
Business Insurance Other		**(2)**		5		**3**		4
Total Business Insurance	**$**	**3,094**	$	2,996	**$**	**6,400**	$	6,114

	Net Written Premiums							
	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)		**2011**		**2010**		**2011**		**2010**
Select Accounts	**$**	**738**						