TRAVELERS COMPANIES, INC.
Form 10-Q
July 22, 2010
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from to

Commission file number 001-10898

The Travelers Companies, Inc.

(Exact name of registrant as specified in its charter)

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

485 Lexington Avenue

New York, NY 10017

(Address of principal executive offices) (Zip Code)

(917) 778-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of the Registrant s Common Stock, without par value, outstanding at July 16, 2010 was 469,989,766.

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The Travelers Companies, Inc.

Quarterly Report on Form 10-Q

For Quarterly Period Ended June 30, 2010

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PART 1 FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

(in millions, except per share amounts)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues				
Premiums	**$ 5,340**	$ 5,353	**$ 10,570**	$ 10,654
Net investment income	**762**	658	**1,515**	1,200
Fee income	**76**	89	**155**	162
Net realized investment gains (losses)	**(31)**	13	**(6)**	(201)
Other revenues	**32**	49	**64**	82
Total revenues	**6,179**	6,162	**12,298**	11,897
Claims and expenses				
Claims and claim adjustment expenses	**3,419**	3,335	**6,807**	6,525
Amortization of deferred acquisition costs	**950**	953	**1,879**	1,897
General and administrative expenses	**832**	839	**1,679**	1,621
Interest expense	**97**	94	**195**	186
Total claims and expenses	**5,298**	5,221	**10,560**	10,229
Income before income taxes	**881**	941	**1,738**	1,668
Income tax expense	**211**	201	**421**	266
Net income	**$ 670**	$ 740	**$ 1,317**	$ 1,402
Net income per share				
Basic	**$ 1.37**	$ 1.27	**$ 2.63**	$ 2.40
Diluted	**$ 1.35**	$ 1.27	**$ 2.60**	$ 2.38
Weighted average number of common shares outstanding				
Basic	**484.5**	575.8	**496.3**	580.1
Diluted	**490.8**	579.8	**502.6**	584.9

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net Realized Investment Gains (Losses)				
Other-than-temporary impairment losses:				

Total gains (losses)	**$ 2**	$ (75)	**$ 1**	$ (259)
Portion of losses recognized in accumulated other changes in equity from nonowner sources	**(6)**	45	**(15)**	45
Other-than-temporary impairment losses	**(4)**	(30)	**(14)**	(214)
Other net realized investment gains (losses)	**(27)**	43	**8**	13
Net realized investment gains (losses)	**$ (31)**	$ 13	**$ (6)**	$ (201)

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in millions)

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Fixed maturities, available for sale, at fair value (including $146 and $90 subject to securities lending) (amortized cost $61,561 and $63,311)	**$ 64,891**	$ 65,847
Equity securities, available for sale, at fair value (cost $389 and $373)	**585**	451
Real estate	**846**	865
Short-term securities	**3,859**	4,852
Other investments	**2,948**	2,950
Total investments	**73,129**	74,965
Cash	**266**	255
Investment income accrued	**799**	825
Premiums receivable	**5,840**	5,471
Reinsurance recoverables	**12,273**	12,816
Ceded unearned premiums	**848**	916
Deferred acquisition costs	**1,804**	1,758
Deferred tax asset	**368**	672
Contractholder receivables	**5,595**	5,797
Goodwill	**3,365**	3,365
Other intangible assets	**543**	588
Other assets	**2,193**	2,132
Total assets	**$ 107,023**	$ 109,560
Liabilities		
Claims and claim adjustment expense reserves	**$ 52,271**	$ 53,127
Unearned premium reserves	**11,092**	10,861
Contractholder payables	**5,595**	5,797
Payables for reinsurance premiums	**467**	546
Debt	**6,276**	6,527
Other liabilities	**5,036**	5,287
Total liabilities	**80,737**	82,145
Shareholders equity		
Preferred Stock Savings Plan convertible preferred stock (0.2 shares issued and outstanding)	**72**	79
Common stock (1,748.6 shares authorized; 470.8 and 520.3 shares issued and outstanding)	**19,884**	19,593
Retained earnings	**17,285**	16,315
Accumulated other changes in equity from nonowner sources	**1,690**	1,219
Treasury stock, at cost (255.6 and 199.6 shares)	**(12,645)**	(9,791)
Total shareholders equity	**26,286**	27,415
Total liabilities and shareholders equity	**$ 107,023**	$ 109,560

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

(in millions)

For the six months ended June 30,	2010	2009
Convertible preferred stock savings plan		
Balance, beginning of year	$ 79	$ 89
Redemptions during period	(7)	(6)
Balance, end of period	72	83
Common stock		
Balance, beginning of year	19,593	19,242
Employee share-based compensation	209	44
Compensation amortization under share-based plans and other changes	82	67
Balance, end of period	19,884	19,353
Retained earnings		
Balance, beginning of year	16,315	13,314
Cumulative effect of adoption of updated accounting guidance at April 1, 2009		71
Net income	1,317	1,402
Dividends	(345)	(352)
Other	(2)	7
Balance, end of period	17,285	14,442
Accumulated other changes in equity from nonowner sources, net of tax		
Balance, beginning of year	1,219	(900)
Cumulative effect of adoption of updated accounting guidance at April 1, 2009		(71)
Change in net unrealized gain (loss) on investment securities:		
Having no credit losses recognized in the consolidated statement of income	476	1,026
Having credit losses recognized in the consolidated statement of income	44	53
Net change in unrealized foreign currency translation and other changes	(49)	150
Balance, end of period	1,690	258
Treasury stock (at cost)		
Balance, beginning of year	(9,791)	(6,426)
Treasury shares acquired share repurchase authorization	(2,800)	(750)
Net shares acquired related to employee share-based compensation plans	(54)	(40)
Balance, end of period	(12,645)	(7,216)
Total common shareholders equity	26,214	26,837
Total shareholders equity	$ 26,286	$ 26,920
Common shares outstanding		
Balance, beginning of year	520.3	585.1
Treasury shares acquired share repurchase authorization	(55.0)	(18.5)
Net shares issued under employee share-based compensation plans	5.5	0.9
Balance, end of period	470.8	567.5
Summary of changes in equity from nonowner sources		
Net income	$ 1,317	$ 1,402
Other changes in equity from nonowner sources, net of tax	471	1,229
Total changes in equity from nonowner sources	$ 1,788	$ 2,631

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,	**2010**	**2009**
Cash flows from operating activities		
Net income	**$ 1,317**	$ 1,402
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment losses	**6**	201
Depreciation and amortization	**411**	415
Deferred federal income tax expense (benefit)	**51**	(31)
Amortization of deferred acquisition costs	**1,879**	1,897
Equity in (income) loss from other investments	**(116)**	252
Premiums receivable	**(382)**	(194)
Reinsurance recoverables	**528**	538
Deferred acquisition costs	**(1,930)**	(1,945)
Claims and claim adjustment expense reserves	**(692)**	(351)
Unearned premium reserves	**270**	227
Other	**(291)**	(622)
Net cash provided by operating activities	**1,051**	1,789
Cash flows from investing activities		
Proceeds from maturities of fixed maturities	**2,478**	2,389
Proceeds from sales of investments:		
Fixed maturities	**2,781**	1,864
Equity securities	**27**	31
Real estate	**10**	
Other investments	**189**	140
Purchases of investments:		
Fixed maturities	**(3,940)**	(4,271)
Equity securities	**(19)**	(18)
Real estate	**(8)**	(9)
Other investments	**(227)**	(186)
Net (purchases) sales of short-term securities	**1,050**	(1,223)
Securities transactions in course of settlement	**2**	366
Other	**(145)**	(205)
Net cash provided by (used in) investing activities	**2,198**	(1,122)
Cash flows from financing activities		
Payment of debt	**(250)**	(141)
Issuance of debt		494
Dividends paid to shareholders	**(343)**	(350)
Issuance of common stock employee share options	**199**	28
Treasury stock acquired share repurchase authorization	**(2,804)**	(750)
Treasury stock acquired net employee share-based compensation	**(40)**	(28)
Excess tax benefits from share-based payment arrangements	**5**	2
Net cash used in financing activities	**(3,233)**	(745)
Effect of exchange rate changes on cash	**(5)**	10
Net increase (decrease) in cash	**11**	(68)
Cash at beginning of year	**255**	350
Cash at end of period	**$ 266**	$ 282

Supplemental disclosure of cash flow information				
Income taxes paid	**$**	**309**	$	363
Interest paid	**$**	**200**	$	185

See notes to consolidated financial statements (unaudited).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements include the accounts of The Travelers Companies, Inc. (together with its subsidiaries, the Company). These financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are unaudited. In the opinion of the Company s management, all adjustments necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. All material intercompany transactions and balances have been eliminated. Certain reclassifications have been made to the 2009 financial statements and notes to conform to the 2010 presentation. The accompanying interim consolidated financial statements and related notes should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s 2009 Annual Report on Form 10-K.

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

Adoption of Accounting Standards Updates

Amendments to Accounting for Variable Interest Entities

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

The updated guidance is effective for all variable interest entities owned on or formed after January 1, 2010. The adoption of this guidance did not have any effect on the Company s results of operations, financial position or liquidity.

Nature of Operations

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

Business Insurance

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES, Continued

Financial, Professional & International Insurance

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

Personal Insurance

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

2. SEGMENT INFORMATION

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

(for the three months ended June 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
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

2009				
Premiums	$ 2,770	$ 810	$ 1,773	$ 5,353
Net investment income	451	107	100	658
Fee income	89			89
Other revenues	12	7	21	40
Total operating revenues (1)	$ 3,322	$ 924	$ 1,894	$ 6,140
Operating income (1)	$ 560	$ 133	$ 88	$ 781

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(for the six months ended June 30, in millions)	Business Insurance	Financial, Professional & International Insurance	Personal Insurance	Total Reportable Segments
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**
2009				
Premiums	$ 5,527	$ 1,611	$ 3,516	$ 10,654
Net investment income	806	211	183	1,200
Fee income	162			162
Other revenues	18	13	42	73
Total operating revenues (1)	$ 6,513	$ 1,835	$ 3,741	$ 12,089
Operating income (1)	$ 1,107	$ 281	$ 242	$ 1,630

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

Business Segment Reconciliations

(in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenue reconciliation				
Earned premiums				
Business Insurance:				
Commercial multi-peril	**$ 730**	$ 727	**$ 1,440**	$ 1,445
Workers compensation	**605**	623	**1,205**	1,256
Commercial automobile	**471**	490	**942**	969
Property	**423**	446	**846**	892
General liability	**433**	484	**858**	966
Other	**1**			(1)
Total Business Insurance	**2,663**	2,770	**5,291**	5,527
Financial, Professional & International Insurance:				
Fidelity and surety	**286**	252	**533**	500
General liability	**222**	233	**448**	461
International	**313**	293	**631**	585
Other	**34**	32	**67**	65
Total Financial, Professional & International Insurance	**855**	810	**1,679**	1,611
Personal Insurance:				
Automobile	**921**	925	**1,825**	1,843
Homeowners and other	**901**	848	**1,775**	1,673
Total Personal Insurance	**1,822**	1,773	**3,600**	3,516
Total earned premiums	**5,340**	5,353	**10,570**	10,654
Net investment income	**762**	658	**1,515**	1,200
Fee income	**76**	89	**155**	162
Other revenues	**32**	40	**64**	73
Total operating revenues for reportable segments	**6,210**	6,140	**12,304**	12,089
Other revenues		9		9
Net realized investment gains (losses)	**(31)**	13	**(6)**	(201)
Total consolidated revenues	**$ 6,179**	$ 6,162	**$ 12,298**	$ 11,897
Income reconciliation, net of tax				
	$ 758	$ 781	**$ 1,470**	$ 1,630

Total operating income for reportable segments								
Interest Expense and Other (1)		**(68)**		(49)		**(149)**		(99)
Total operating income		**690**		732		**1,321**		1,531
Net realized investment gains (losses)		**(20)**		8		**(4)**		(129)
Total consolidated net income	**$**	**670**	$	740	**$**	**1,317**	$	1,402

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(1) The primary component of Interest Expense and Other is after-tax interest expense of $63 million and $61 million for the three months ended June 30, 2010 and 2009, respectively, and $127 million and $121 million for the six months ended June 30, 2010 and 2009, respectively. The totals for the three months and six months ended June 30, 2009 included benefits of $14 million and $28 million, respectively, from the favorable resolution of various prior year tax matters.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

2. SEGMENT INFORMATION, Continued

(in millions)	June 30, 2010	December 31, 2009
Asset reconciliation:		
Business Insurance	**$ 79,429**	$ 81,705
Financial, Professional & International Insurance	**13,931**	13,920
Personal Insurance	**13,069**	13,328
Total assets for reportable segments	**106,429**	108,953
Other assets (1)	**594**	607
Total consolidated assets	**$ 107,023**	$ 109,560

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

3. INVESTMENTS

Fixed Maturities

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

(at June 30, 2010, 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	**$ 2,053**	**$ 111**	**$**	**$ 2,164**
Obligations of states, municipalities and political subdivisions	**39,090**	**2,149**	**17**	**41,222**
Debt securities issued by foreign governments	**1,742**	**61**	**1**	**1,802**
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	**4,612**	**277**	**79**	**4,810**
All other corporate bonds	**14,023**	**889**	**61**	**14,851**
Redeemable preferred stock	**41**	**2**	**1**	**42**
Total	**$ 61,561**	**$ 3,489**	**$ 159**	**$ 64,891**

(at December 31, 2009, in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 2,490	$ 85	$ 1	$ 2,574
Obligations of states, municipalities and political subdivisions	39,459	1,915	41	41,333
Debt securities issued by foreign governments	1,912	48	3	1,957
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	5,182	190	165	5,207
All other corporate bonds	14,221	623	116	14,728
Redeemable preferred stock	47	2	1	48
Total	$ 63,311	$ 2,863	$ 327	$ 65,847

Equity Securities

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

(at June 30, 2010, in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	**$ 198**	**$ 161**	**$ 6**	**$ 353**
Non-redeemable preferred stock	**191**	**49**	**8**	**232**
Total	**$ 389**	**$ 210**	**$ 14**	**$ 585**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

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

Variable Interest Entities

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Unrealized Investment Losses

The following tables summarize, for all investments in an unrealized loss position at June 30, 2010 and December 31, 2009, the aggregate fair value and gross unrealized losses by length of time those securities have been continuously in an unrealized loss position.

(at June 30, 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	$ 50	$	$	$	$ 50	$
Obligations of states, municipalities and political subdivisions	1,309	8	160	9	1,469	17
Debt securities issued by foreign governments	56		43	1	99	1
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	104	1	806	78	910	79
All other corporate bonds	536	19	505	42	1,041	61
Redeemable preferred stock	5	1	3		8	1
Total fixed maturities	2,060	29	1,517	130	3,577	159
Equity securities						
Common stock	55	6	7		62	6
Non-redeemable preferred stock	13		89	8	102	8
Total equity securities	68	6	96	8	164	14
Total	$ 2,128	$ 35	$ 1,613	$ 138	$ 3,741	$ 173

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

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

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at June 30, 2010, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

(in millions)	Period For Which Fair Value Is Less Than 80% of Amortized Cost				
	3 Months or Less	Greater Than 3 Months, 6 Months or Less	Greater Than 6 Months, 12 Months or Less	Greater Than 12 Months	Total
Fixed maturities					
Mortgage-backed securities	**$ 1**	**$**	**$**	**$ 21**	**$ 22**
Other	**1**			**23**	**24**
Total fixed maturities	**2**			**44**	**46**

Equity securities		**6**								**6**
Total	**$**	**8**	**$**		**$**		**$**	**44**	**$**	**52**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

Impairment Charges

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

(in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Fixed maturities				
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$	$	$	$
Obligations of states, municipalities and political subdivisions				
Debt securities issued by foreign governments				
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	1	7	2	58
All other corporate bonds		16	5	72
Redeemable preferred stock				
Total fixed maturities	1	23	7	130
Equity securities				
Common stock	1		2	15
Non-redeemable preferred stock		5		64
Total equity securities	1	5	2	79
Other investments	2	2	5	5
Total	$ 4	$ 30	$ 14	$ 214

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

The following tables present a roll-forward of the credit component of other-than-temporary impairments (OTTI) on fixed maturities recognized in the consolidated statement of income for which a portion of the other-than-temporary impairment was recognized in accumulated other changes in equity from nonowner sources for the periods April 1 through June 30, 2010 and 2009, and January 1, 2010 through June 30, 2010:

April 1, 2010 through 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**

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

3. INVESTMENTS, Continued

January 1, 2010 through 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	$ 46	$	$ 2	$ (3)	$	$ 45
All other corporate bonds	93		2	(11)	1	85
Total fixed maturities	$ 139	$	$ 4	$ (14)	$ 1	$ 130

April 1, 2009 through June 30, 2009 (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	$ 13	$ 2	$ 5	$	$	$ 20
All other corporate bonds	82	4	9			95
Total fixed maturities	$ 95	$ 6	$ 14	$	$	$ 115

4. FAIR VALUE MEASUREMENTS

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

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

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

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

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Valuation of Investments Reported at Fair Value in Financial Statements

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

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

Fixed Maturities

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

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

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

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

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

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. The estimated fair value of stocks having transfer restrictions that expire within one year was determined by adjusting the observed market price of the securities for a liquidity discount which takes into consideration the restrictions that existed at June 30, 2010 and is based on market observable inputs. As a result of adjusting the market price to reflect the impact of the transfer restrictions on estimated fair value, the Company discloses these holdings in Level 2. Infrequently, current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company. In these instances, the Company receives an estimate of fair value from the pricing service that provides fair value estimates for the Company s fixed maturities. The service utilizes some of the same methodologies to price the non-redeemable preferred stocks as it does for the fixed maturities. The Company includes the fair value estimate for these non-redeemable preferred stocks in the amount disclosed in Level 2.

Other Investments

Common Stock with Transfer Restrictions and Other

The estimated fair value of stocks having transfer restrictions that expire after one year was determined using the same methodology described above, and is disclosed in Level 2. The Company holds investments in non-public common and preferred equity securities, with a fair value estimate of $48 million at June 30, 2010, reported in other investments, where the fair value estimate is determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the total fair value estimate for all of these investments at June 30, 2010 in the amount disclosed in Level 3. The Company holds investments in various publicly-traded securities which are reported in other investments. The $38 million fair value of these investments at June 30, 2010 is disclosed in Level 1. These investments include securities in the Company s trading portfolio ($20 million), mutual funds ($16 million) and other small holdings ($2 million).

Derivatives

The Company holds non-public warrants in a public company and has convertible bonds containing embedded conversion options that are valued separately from the host bond contract. The Company estimates fair value for the warrants using an option pricing model with observable market inputs. Because the warrants are not market traded and information concerning market participants is not available, the Company includes the fair value estimate of $70 million at June 30, 2010 in the amount disclosed in Level 3 - other investments.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

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, 2010 and December 31, 2009.

(at June 30, 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	$ 2,164	$ 2,147	$ 17	$
Obligations of states, municipalities and political subdivisions	41,222		41,113	109
Debt securities issued by foreign governments	1,802		1,802	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	4,810		4,809	1
All other corporate bonds	14,851		14,733	118
Redeemable preferred stock	42	41	1	
Total fixed maturities	64,891	2,188	62,475	228
Equity securities				
Common stock	353	231	122	
Non-redeemable preferred stock	232	141	91	
Total equity securities	585	372	213	
Other investments (1)	272	38	116	118
Total	$ 65,748	$ 2,598	$ 62,804	$ 346

(1) The amount in Level 3 includes $70 million of non-public stock purchase warrants of a publicly-held company.

The Company did not have significant transfers between Levels 1 and 2 during the six months ended June 30, 2010.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

(at December 31, 2009, in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities				
U.S. Treasury securities and obligations of U.S. Government and government agencies and authorities	$ 2,574	$ 2,517	$ 57	$
Obligations of states, municipalities and political subdivisions	41,333		41,232	101
Debt securities issued by foreign governments	1,957		1,957	
Mortgage-backed securities, collateralized mortgage obligations and pass-through securities	5,207		5,184	23
All other corporate bonds	14,728		14,612	116
Redeemable preferred stock	48	36	12	
Total fixed maturities	65,847	2,553	63,054	240
Equity securities				
Common stock	219	219		
Non-redeemable preferred stock	232	138	94	
Total equity securities	451	357	94	
Other investments (1)	413	46	213	154
Total	$ 66,711	$ 2,956	$ 63,361	$ 394

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

The following tables present the changes in the Level 3 fair value category during the three months and six months ended June 30, 2010, and the twelve months ended December 31, 2009.

Three Months Ended June 30, 2010 (in millions)	Fixed Maturities	Other Investments	Total
Balance at March 31, 2010	$ 250	$ 138	$ 388
Total realized and unrealized investment gains (losses):			
Included in realized investment gains (losses) (1)	1	(16)	(15)
Included in increases (decreases) in accumulated other changes in equity from nonowner sources	9	(1)	8
Purchases, sales and settlements/maturities:			
Purchases	10		10
Sales	(1)	(3)	(4)
Settlements/maturities	(17)		(17)
Gross transfers into Level 3	3		3
Gross transfers out of Level 3	(27)		(27)
Balance at June 30, 2010	$ 228	$ 118	$ 346
Amount of total realized investment 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	$	$ (14)	$ (14)

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

Six Months Ended June 30, 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)	2	(25)	(23)
Included in increases (decreases) in accumulated other changes in equity from nonowner sources	11	(3)	8
Purchases, sales and settlements/maturities:			
Purchases	25		25
Sales	(7)	(8)	(15)

Settlements/maturities	(22)		(22)
Gross transfers into Level 3	7		7
Gross transfers out of Level 3	(28)		(28)
Balance at June 30, 2010	$ 228	$ 118	$ 346
Amount of total realized investment 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	$	$ (24)	$ (24)

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

4. FAIR VALUE MEASUREMENTS, Continued

Twelve Months Ended December 31, 2009 (in millions)	**Fixed Maturities**	**Other Investments**	**Total**
Balance at December 31, 2008	$ 154	$ 311	$ 465
Total realized and unrealized investment gains (losses):			
Included in realized investment gains (losses) (1)	(5)	(4)	(9)
Included in increases (decreases) in accumulated other changes in equity from nonowner sources	11	73	84
Purchases, sales and settlements/maturities:			
Purchases	128	4	132
Sales	(12)		(12)
Settlements/maturities	(18)		(18)
Gross transfers into Level 3	9		9
Gross transfers out of Level 3	(27)	(230)	(257)
Balance at December 31, 2009	$ 240	$ 154	$ 394
Amount of total realized investment gains for the period included in the consolidated statement of income attributable to changes in the fair value of assets still held at the reporting date	$	$ 7	$ 7

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

The Company had no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the six months ended June 30, 2010 or twelve months ended December 31, 2009.

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 $614 million and $629 million of financial instruments classified as other assets approximated their fair values at June 30, 2010 and December 31, 2009, respectively. The carrying values of $3.54 billion and $3.89 billion of financial instruments classified as other liabilities at June 30, 2010 and December 31, 2009, respectively, also approximated their fair values. Fair value is determined using various methods including discounted cash flows, as appropriate for the various financial instruments.

The carrying value and fair value of the Company s debt at June 30, 2010 were $6.28 billion and $6.76 billion, respectively. The respective totals at December 31, 2009 were $6.53 billion and $6.82 billion. The Company utilized a pricing service to estimate fair value measurements for approximately 96% of its debt, other than commercial paper, at each of June 30, 2010 and December 31, 2009. The pricing service utilized market quotations for debt that has 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 utilized 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 produced 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, 2010 and December 31, 2009 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, 2010 and December 31, 2009:

(in millions)	June 30, 2010	December 31, 2009
Business Insurance	$ **2,168**	$ 2,168
Financial, Professional & International Insurance	**557**	557
Personal Insurance	**613**	613
Other	**27**	27
Total	$ **3,365**	$ 3,365

Other Intangible Assets

The following tables present a summary of the Company s other intangible assets by major asset class at June 30, 2010 and December 31, 2009:

(at June 30, 2010, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization			
Customer-related	$ **935**	$ **754**	$ **181**
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	**191**	**45**	**146**
Total intangible assets subject to amortization	**1,126**	**799**	**327**
Intangible assets not subject to amortization	**216**		**216**
Total other intangible assets	$ **1,342**	$ **799**	$ **543**

(at December 31, 2009, in millions)	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization			

Customer-related	$ 935	$ 722	$ 213
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables (1)	191	32	159
Total intangible assets subject to amortization	1,126	754	372
Intangible assets not subject to amortization	216		216
Total other intangible assets	$ 1,342	$ 754	$ 588

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Customer-related	**$ 15**	$ 17	**$ 32**	$ 38
Fair value adjustment on claims and claim adjustment expense reserves and reinsurance recoverables	**6**	7	**13**	14
Total amortization expense	**$ 21**	$ 24	**$ 45**	$ 52

Intangible asset amortization expense is estimated to be $41 million for the remainder of 2010, $69 million in 2011, $52 million in 2012, $45 million in 2013 and $43 million in 2014.

6. DEBT

On April 15, 2010, the Company s $250 million, 8.125% senior notes matured and were fully paid from internally-generated funds.

On June 10, 2010, the Company entered into a three-year, $1.0 billion revolving credit agreement with a syndicate of financial institutions, replacing its five-year, $1.0 billion credit agreement that expired on that date. Pursuant to the credit agreement covenants, the Company must maintain a minimum consolidated net worth (generally defined as shareholders equity plus certain trust preferred and mandatorily convertible securities, reduced for goodwill and other intangible assets). That threshold is adjusted downward by an amount equal to 70% of the aggregate amount of common stock repurchased by the Company after March 31, 2010, up to a maximum deduction of $1.75 billion. The threshold was $15.12 billion at June 30, 2010, and will decline to a minimum of $14.35 billion during the term of the credit agreement, subject to the Company repurchasing an additional $1.10 billion of its common stock. The Company must also maintain a ratio of total debt to the sum of total debt plus consolidated net worth of not greater than 0.40 to 1.00. In addition, the credit agreement contains other customary restrictive covenants as well as certain customary events of default, including with respect to a change in control, which is defined to include the acquisition of 35% or more of the Company s voting stock and certain changes in the composition of the Company s board of directors. At June 30, 2010, the Company was in compliance with these covenants. Generally, the cost of borrowing under this agreement will range from LIBOR plus 100 basis points to LIBOR plus 175 basis points depending on the Company s credit ratings. At June 30, 2010, that cost would have been LIBOR plus 125 basis points, had there been any amounts outstanding under the credit agreement.

7. SHARE REPURCHASE AUTHORIZATION

Since May 2006, the Company s board of directors has approved four common share repurchase authorizations, for a cumulative authorization of up to $16 billion of shares of the Company s common stock. Under these authorizations, the most recent of which totaled $6 billion and was approved by the board of directors in October 2009, repurchases may be made from time to time in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company s 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, 2010, the Company repurchased 28.0 million and 55.0 million shares, respectively, under its share repurchase authorization, for a total cost of approximately $1.40 billion and $2.80 billion, respectively. The average cost per share repurchased was $50.07 and $50.96, respectively. At June 30, 2010, the Company had $3.71 billion of capacity remaining under the share repurchase authorization.

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

8. CHANGES IN EQUITY FROM NONOWNER SOURCES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, after-tax)	**2010**	**2009**	**2010**	**2009**
Net income	**$ 670**	$ 740	**$ 1,317**	$ 1,402
Change in net unrealized gain (loss) on investment securities:				
Having no credit losses recognized in the consolidated statement of income	**422**	339	**476**	1,026
Having credit losses recognized in the consolidated statement of income	**21**	53	**44**	53
Other changes	**(24)**	169	**(49)**	150
Total changes in equity from nonowner sources	**$ 1,089**	$ 1,301	**$ 1,788**	$ 2,631

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

9. EARNINGS PER SHARE

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

(in millions, except per share amounts)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Basic				
Net income, as reported	**$ 670**	$ 740	**$ 1,317**	$ 1,402
Preferred stock dividends		(1)	**(1)**	(2)
Participating share-based awards allocated income	**(5)**	(5)	**(10)**	(10)
Net income available to common shareholders basic	**$ 665**	$ 734	**$ 1,306**	$ 1,390
Diluted				
Net income available to common shareholders	**$ 665**	$ 734	**$ 1,306**	$ 1,390
Effect of dilutive securities:				
Convertible preferred stock		1	**1**	2
Zero coupon convertible notes				1
Net income available to common shareholders diluted	**$ 665**	$ 735	**$ 1,307**	$ 1,393
Common shares				
Basic				
Weighted average shares outstanding	**484.5**	575.8	**496.3**	580.1
Diluted				
Weighted average shares outstanding	**484.5**	575.8	**496.3**	580.1
Weighted average effects of dilutive securities:				
Stock options and performance shares	**4.5**	1.9	**4.5**	1.9
Convertible preferred stock	**1.8**	2.1	**1.8**	2.1
Zero coupon convertible notes				0.8
Total	**490.8**	579.8	**502.6**	584.9
Net Income per Common Share				
Basic	**$ 1.37**	$ 1.27	**$ 2.63**	$ 2.40
Diluted	**$ 1.35**	$ 1.27	**$ 2.60**	$ 2.38

10. SHARE-BASED INCENTIVE COMPENSATION

The following presents information for fully vested stock option awards at June 30, 2010:

Stock Options	Number	Weighted Average Exercise Price		Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value ($ in millions)	
Vested at end of period (1)	**22,145,303**	**$**	**46.17**	**2.3 Years**	**$**	**102**
Exercisable at end of period	**18,526,354**	**$**	**46.08**	**2.8 Years**	**$**	**90**

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

10. SHARE-BASED INCENTIVE COMPENSATION, Continued

The total compensation cost recognized in earnings for all share-based incentive compensation awards was $29 million and $28 million for the three months ended June 30, 2010 and 2009, respectively, and $71 million and $65 million for the six months ended June 30, 2010 and 2009, respectively. The related tax benefit recognized in the consolidated statement of income was $10 million and $9 million for the three months ended June 30, 2010 and 2009, respectively, and $25 million and $22 million for the six months ended June 30, 2010 and 2009, respectively.

The total unrecognized compensation cost related to all nonvested share-based incentive compensation awards at June 30, 2010 was $162 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, 2009 was $111 million, which was expected to be recognized over a weighted-average period of 1.7 years.

11. PENSION PLANS, RETIREMENT BENEFITS AND SAVINGS PLANS

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

	Pension Plans		Postretirement Benefit Plans	
(for the three months ended June 30, in millions)	**2010**	**2009**	**2010**	**2009**
Net Periodic Benefit Cost:				
Service cost	**$ 24**	$ 20	**$**	$
Interest cost on benefit obligation	**32**	32	**3**	5
Expected return on plan assets	**(46)**	(44)		(1)
Amortization of unrecognized:				
Prior service benefit	**(1)**	(2)		
Net actuarial loss	**15**	6		
Net expense	**$ 24**	$ 12	**$ 3**	$ 4

	Pension Plans		Postretirement Benefit Plans	
	2010	**2009**	**2010**	**2009**

(for the six months ended June 30, in millions)

Net Periodic Benefit Cost:								
Service cost	**$**	**48**	$	40	**$**		$	
Interest cost on benefit obligation		**64**		63		**7**		9
Expected return on plan assets		**(92)**		(87)				(1)
Amortization of unrecognized:								
Prior service benefit		**(2)**		(3)				
Net actuarial loss		**30**		11				
Net expense	**$**	**48**	$	24	**$**	**7**	$	8

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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

Asbestos- and Environmental-Related Proceedings

In the ordinary course of its insurance business, the Company receives claims for insurance arising under policies issued by the Company asserting alleged injuries and damages from asbestos- and environmental-related exposures that are the subject of related coverage litigation, including, among others, the litigation described below. The Company continues to be subject to aggressive asbestos-related litigation. The conditions surrounding the final resolution of these claims and the related litigation continue to change. The Company is defending 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).

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

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

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

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

On June 18, 2009, the Supreme Court ruled in favor of TPC, reversing the Second Circuit s February 15, 2008 decision, finding, among other things, that the 1986 Orders are final and generally bar the Statutory and Hawaii actions and substantially all Common Law Claims against TPC. Further, the Supreme Court ruled that the bankruptcy court had jurisdiction to issue the Clarifying Order. However, since the Second Circuit had not ruled on certain additional issues, principally related to procedural matters and the adequacy of notice provided to certain parties, the Supreme Court remanded 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. TPC presently intends to file a Petition for Writ of Certiorari in the United States Supreme Court seeking review of the Second Circuit s March 22, 2010 opinion.

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

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

Other Proceedings

Broker Anti-Trust Litigation In 2005, four putative class action lawsuits were brought against a number of insurance brokers and insurers, including the Company and/or certain of its affiliates, by plaintiffs who allegedly purchased insurance products through one or more of the defendant brokers. The plaintiffs alleged that various insurance brokers conspired with each other and with various insurers, including the Company and/or certain of its affiliates, to artificially inflate premiums, allocate brokerage customers and rig bids for insurance products offered to those customers. To the extent they were not originally filed there, the federal class actions were transferred to the U.S. District Court for the District of New Jersey and were consolidated for pre-trial proceedings with other class actions under the caption *In re Insurance Brokerage Antitrust*

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

12. CONTINGENCIES, COMMITMENTS AND GUARANTEES, Continued

Litigation. On August 1, 2005, various plaintiffs, including the four named plaintiffs in the above-referenced class actions, filed an amended consolidated class action complaint naming various brokers and insurers, including the Company and certain of its affiliates, on behalf of a putative nationwide class of policyholders. The complaint included causes of action under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state common law and the laws of the various states prohibiting antitrust violations. The complaint sought monetary damages, including punitive damages and trebled damages, permanent injunctive relief, restitution, including disgorgement of profits, interest and costs, including attorneys fees. All defendants moved to dismiss the complaint for failure to state a claim. After giving plaintiffs multiple opportunities to replead, the court dismissed the Sherman Act claims on August 31, 2007 and the RICO claims on September 28, 2007, both with prejudice, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs appealed the district court s decisions to the U.S. Court of Appeals for the Third Circuit. Oral argument before the Third Circuit took place on April 21, 2009. The parties continue to await a ruling from the Third Circuit. Additional individual actions have been brought in state and federal courts against the Company involving allegations similar to those in *In re Insurance Brokerage Antitrust Litigation,* and further actions may be brought. The Company believes that all of these lawsuits have no merit and intends to defend vigorously.

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

Other Commitments and Guarantees

Commitments

Investment Commitments The Company has unfunded commitments to private equity limited partnerships and real estate partnerships in which it invests. These commitments were $1.26 billion and $1.32 billion at June 30, 2010 and December 31, 2009, 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 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, 2010, the maximum amount of the Company s obligation for guarantees of certain investments and third-party loans related to certain investments that are quantifiable was $84 million, approximately $40 million of which would be recoverable from a third party.

In the ordinary course of selling business entities to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representations and warranties with respect to the business entities being sold, covenants and obligations of the Company and/or its subsidiaries following the closing, and in certain cases obligations arising from undisclosed liabilities, adverse reserve development, imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law, or certain named litigation. Such indemnification provisions generally survive for periods ranging from 12 months following the applicable closing date to the expiration of the relevant statutes of limitations, although in some cases there may be other agreed upon term limitations or no term limitations. Certain of these contingent obligations are subject to deductibles which have to be incurred by the obligee before the Company is obligated to make payments. The maximum amount of the Company s contingent obligation for indemnifications related to the sale of business entities that are quantifiable was $1.34 billion at June 30, 2010, of which $11 million was recognized on the balance sheet at that date.

THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

The following consolidating financial statements of the Company have been prepared pursuant to Rule 3-10 of Regulation S-X. These consolidating financial statements have been prepared from the Company s financial information on the same basis of accounting as the consolidated financial statements. The Travelers Companies, Inc. has fully and unconditionally guaranteed certain debt obligations of TPC, its wholly-owned subsidiary, which totaled $1.20 billion at June 30, 2010.

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended June 30, 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 (losses)	$ 2	$	$	$	$ 2
Portion of losses 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)

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the three months ended June 30, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 3,628	$ 1,725	$	$	$ 5,353
Net investment income	424	227	7		658
Fee income	90	(1)			89
Net realized investment gains (losses)	18	(5)			13
Other revenues	41	9		(1)	49
Total revenues	4,201	1,955	7	(1)	6,162
Claims and expenses					
Claims and claim adjustment expenses	2,221	1,114			3,335
Amortization of deferred acquisition costs	635	318			953
General and administrative expenses	569	266	4		839
Interest expense	19		76	(1)	94
Total claims and expenses	3,444	1,698	80	(1)	5,221
Income (loss) before income taxes	757	257	(73)		941
Income tax expense (benefit)	170	55	(24)		201
Equity in net income of subsidiaries			789	(789)	
Net income	$ 587	$ 202	$ 740	$ (789)	$ 740

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total losses	$ (49)	$ (26)	$	$	$ (75)
Portion of losses recognized in accumulated other changes in equity from nonowner sources	28	17			45
Other-than-temporary impairment losses	(21)	(9)			(30)
Other net realized investment gains	39	4			43
Net realized investment gains (losses)	$ 18	$ (5)	$	$	$ 13

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the six months ended June 30, 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
Portion of losses 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

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

CONSOLIDATING STATEMENT OF INCOME (Unaudited)

For the six months ended June 30, 2009

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Revenues					
Premiums	$ 7,215	$ 3,439	$	$	$ 10,654
Net investment income	755	432	13		1,200
Fee income	163	(1)			162
Net realized investment losses	(88)	(80)	(33)		(201)
Other revenues	71	12		(1)	82
Total revenues	8,116	3,802	(20)	(1)	11,897
Claims and expenses					
Claims and claim adjustment expenses	4,357	2,168			6,525
Amortization of deferred acquisition costs	1,268	629			1,897
General and administrative expenses	1,060	551	10		1,621
Interest expense	37		150	(1)	186
Total claims and expenses	6,722	3,348	160	(1)	10,229
Income (loss) before income taxes	1,394	454	(180)		1,668
Income tax expense (benefit)	301	80	(115)		266
Equity in net income of subsidiaries			1,467	(1,467)	
Net income	$ 1,093	$ 374	$ 1,402	$ (1,467)	$ 1,402

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Net Realized Investment Gains (Losses)					
Other-than-temporary impairment losses:					
Total losses	$ (158)	$ (101)	$	$	$ (259)
Portion of losses recognized in accumulated other changes in equity from nonowner sources	28	17			45
Other-than-temporary impairment losses	(130)	(84)			(214)
Other net realized investment gains (losses)	42	4	(33)		13
Net realized investment losses	$ (88)	$ (80)	$ (33)	$	$ (201)

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

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THE TRAVELERS COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued

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

CONSOLIDATING BALANCE SHEET (Unaudited)

At June 30, 2010

(in millions)	TPC	Other Subsidiaries	Travelers (1)	Eliminations	Consolidated
Assets					
Fixed maturities, available for sale, at fair value (including $146 subject to securities lending) (amortized cost $61,561)	$ 44,166	$ 20,713	$ 12	$	$ 64,891
Equity securities, available for sale, at fair value (cost $389)	193	339	53		585
Real estate	1	845			846
Short-term securities	1,094	375	2,390		3,859
Other investments	1,887	990	71		2,948
Total investments	47,341	23,262	2,526		73,129
Cash	109	156	1		266
Investment income accrued	539	260			799
Premiums receivable	3,865	1,975			5,840
Reinsurance recoverables	8,031	4,242			12,273
Ceded unearned premiums	621	227			